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Survey
US finance and
investment
Pages 27-30

Serbia
The looming spectre
of a Balkan war
Page 14

THE BIG LIE: Inside Maxwell's Empire Beginning this Saturday
and all next week the FT lays bare Robert Maxwell's empire of deceit



FINANCIAL TIMES

Thursday June 11 1992

EUROPE'S BUSINESS NEWSPAPER

D8523A

Two Maxwells involved in buying MCC shares

Documents which show for the first time that both Robert Maxwell and his son Kevin were intimately involved in substantial purchases of shares in Maxwell Communication Corporation, one of their own public companies, have been obtained by the Financial Times.

Meanwhile, a director of a secretive Swiss trust has admitted that transfers of MCC shares to his trust, which are at the centre of an investigation by the UK Serious Fraud Office, were made on the instructions of Robert Maxwell. Page 16; NatWest seeks ruling on Maxwell shares. Page 9; Bank pulls out of MGN refinancing. Page 9.

Landesbank Schleswig-Holstein: Three main board directors resigned in protest at plans for the sale of a stake in the publicly-owned institution to Westdeutsche Landesbank. Page 17.

Premier chosen: Anand Panyarachun, businessman and former diplomat, was re-appointed as prime minister of Thailand by a royal edict which paves the way for new elections. Page 7.

Air wars: Lufthansa, German state airline, and Swissair cut their ticket prices from the US to Europe in response to a price war which broke out among US carriers on Tuesday. Page 2.

Rudolf Hess 'suicide note' revealed
Rudolf Hess, Hitler's deputy (left), who staged an abortive peace mission to the UK in 1941, addressed an apparent suicide note to his family in Germany a month after his mysterious arrival in Scotland, according to UK government records published as part of an effort to reduce official secrecy over the incident.

Trouble looms: When US President George Bush arrives in Rio de Janeiro today he could be embarking on his biggest public relations disaster since his accident-ridden trip to Japan in January. Page 4; Last-minute struggle for convention on forests. Page 4.

General Domestic Appliances: Anglo-US maker of white goods, is about to join a European partnership with the leading French and Spanish suppliers of household appliances. Page 17.

Gaddafi attacked: Libya's official press unprecedentedly criticised Colonel Muammar Gaddafi's relations with fellow Arabs and called for better relations with the US. Page 8.

Accounts qualified: The uncertain UK property market prompted auditors to qualify the accounts of Regalian Properties, one of the best-known UK property companies. Page 18; Lex. Page 16; London stocks. Page 31.

Peace risk: Khmer Rouge guerrillas have said they will refuse to co-operate fully with a UN plan to bring democracy to Cambodia, throwing the peace process into doubt. Page 7.

Exports blocked: Efforts by Bangladesh to liberalise its trade regime and boost exports are being handicapped by trade barriers in rich western countries, Gait says. Page 5.

Four executed: Iran hanged four men for their part in last month's riots in the holy city of Mashhad.

Boardroom rules: Non-executive directors in the UK will no longer be able to serve on more than one board because of their obligations under proposals on corporate governance. Page 9.

Nestlé, Swiss food group, is paying FF480m (\$90.5m) to buy 1.5m shares in Suez, French industrial and financial group. Page 16.

Warning on extremists: Britain's Commission for Racial Equality criticised the rise of right-wing extremists in Europe and the US. Page 9.

Guerrilla holds: Victor Polay Campos, leader of Peru's second-largest guerrilla group, has been captured in a Lima suburb. Page 4.

Sell-off started: Bolivia launched its privatisation programme this week by ear-marking more than 80 enterprises, ranging from cotton mills to cement factories, for sale. Page 4.

Slow start: Eight hundred employees and only 100 customers attended the grand opening of Japan's largest department store. Page 7.

STOCK MARKET INDICES			STERLING		
FT-SE 100	2,888.1	(+0.7)	New York	1,892	
Yield	4.87		London	1,835	(1,833)
FT-SE Eurotrack 100	1,734.3	(-0.38)	DM	2.82	(2,915)
FT-AE-Share	1,278.43	(-0.08)	FF	8,825	(8,815)
Nikkei	17,742.87	(-102.17)	Sfr	2,802	(2,807)
New York	1,892		Y	233.75	(234)
Dow Jones Ind Ave	3,361.18	(-8.02)	£ Index	92.7	(92.8)
S&P Composite	408.15	(-0.91)			
US LUNCHTIME RATES			DOLLAR		
Federal Funds	3 1/4		New York	1,892	
3-mo Treasury Bill	3.75		London	1,835	(1,833)
Long Bond	10 1/4		DM	2.82	(2,915)
Yield	7.82		FF	8,825	(8,815)
LONDON MONEY			Sfr	2,802	(2,807)
3-mo Treasury Bill	3.75	(10)	Y	233.75	(234)
Libor 3m	4.87	(Sep 97)	£ Index	92.7	(92.8)
NORTH SEA OIL (Argus)					
Brut 15-day (July)	\$28.95	(21.025)			
Gold					
New York Comex (June)	\$387.9	(338.3)			
London	\$338	(337.95)			

Austria	Sch30	Hungary	Ft102	Malta	Lm0.50	S.Arabia	Sfr2.00
Bahrain	Dm1.00	India	Rp100	Morocco	Md111	Singapore	S\$4.10
Belgium	Sfr20	Indonesia	Rp100	Neth	Ft 3.50	Spain	Pes200
Cyprus	Ct1.00	Israel	Shs100	Nigeria	Nair20	Sweden	Skr14
Czech	Kcs10	Japan	Yen100	Norway	Nkr100	Switzerland	Sfr100
Denmark	Dkr14	Korea	Won200	Philippines	Pso45	Turkey	Lira100
Egypt	Egpt10	Kuwait	Din100	Poland	Zl100	UAE	Dh100
Finland	Fmk10	Lebanon	Lb100	Portugal	Esc100		
France	Ffr100	Lux	Lfr100	Qatar	Qr100		
Germany	Dm100						
Greece	Dr200						

UK and EC near deal on 48-hour working week

By David Gardner in Brussels

THE UK and its European Community partners are close to agreeing plans to limit the working week to 48 hours, breaking a two-year deadlock on one of the most controversial pieces of community legislation.

The British government has fiercely resisted conceding a ceiling on working hours. According to senior European Commission officials, all 12 would accept a 48-hour working week under the compromise, but Britain would be given an additional

seven years to implement it. Commission officials say a deal would be significant because of the crisis of confidence caused by the Danish rejection of the Maastricht treaty which has jeopardised European union.

If agreed, the working time deal would translate Maastricht's agreement to disagree on social policy into law for the first time. At Maastricht, the 11 put their more ambitious social policy aims into a protocol to the treaty, leaving the UK subject only to existing social provisions.

These sorts of "variable geometry" or "Europe à la carte" deals - whereby member states can sign up to EC policies which suit them - are anathema to integrationists who see in them the fragmentation of the Community and dilution of its force.

But after the Danish rejection, and with Ireland's June 18 referendum looming, events could move swiftly in favour of a variable speed Europe.

According to senior Commission officials, all 12 would accept a 48-hour working week under the compromise. But the UK would in effect get 10 years to

implement it: the maximum three years for a directive to come into law plus a seven-year transition period.

Crucially, the directive would allow those people willing to work more than 48 hours to do so - the main UK demand. But those workers unwilling to exceed the prescribed limit would have the protection of the law.

To enforce this, employers would have to keep records of both categories of workers, and make these available to national health and safety authorities, whose job it would be to ensure

there was no discrimination. This basis for compromise followed German representations designed to ensure that the UK was not isolated in the Council of Ministers on June 24 in Luxembourg, ahead of the June 26-27 Lisbon summit. It was Germany which prevented the issue going to a vote on April 30, to allow the newly-appointed Mrs Gillian Shephard, the UK employment secretary, a "grace period".

Following the Danish referendum result, however, negotiations gathered pace, Commission officials say, and now centre on

today's meeting between Mrs Shephard and her French counterpart, Ms Martine Aubry, who is one of the authors of the EC's social charter.

If agreement is reached, it would be sealed at a social affairs EC ministerial meeting on the eve of the Lisbon summit, which will be dominated by the Maastricht treaty crisis.

Some problems remain, such as whether working time agreements should be negotiated at industry level - as the majority of member states want - or at plant level, as the UK insists.

Delors calls for more open EC to head off critics

By Andrew Hill in Strasbourg

EUROPEAN Commission president Mr Jacques Delors yesterday called for a more open, less complicated European Community as an antidote to growing scepticism about European union.

In the first sitting of the European parliament since Danish voters rejected the Maastricht treaty in a referendum last week, Mr Delors blamed the increasing uneasiness about closer European union on the EC's failure to explain itself to a wider public.

MAASTRICHT IN THE BALANCE

Page 2

■ Delors warns budget critics of stagnation

■ EC central banks to press ahead with monetary union

■ Sharp growth in Irish opposition to Maastricht

Page 16

■ UK ministers deny splits over Maastricht

Page 17

■ Muted cheers for the single market

Samuel Brittan Page 15

Lex Page 16

added that clarity of legislation, transparency of decision-making and a particular emphasis on "subsidiarity" - the devolution of powers to the most appropriate authority - should be the hallmarks of community institutions and governments.

He said that after January 1, 1993, the target date for the implementation of the single European market, the volume of commission-generated legislation was bound to diminish.

"We mustn't, for fear of being unemployed, make new laws just for the fun of it," he said.

The parliament voted by a large majority to urge member states to continue the ratification process "without delay."

Mr Jean-Pierre Cot, leader of the socialist group in the parliament, rejected the option of reopening negotiations on the treaty. "Renegotiation would be the opportunity some people dream of to transform the community into [nothing more than] a vast free trade area."

Commission officials agree with Mr Delors that the EC's aims must be explained to member states and their citizens. "Somehow we have to find a way to recreate the basis for trust," a senior Brussels official said yesterday.

"Maybe we have forgotten about the public at large."

Mr Leo Tindemans, the Belgian head of the Christian Democrat group in parliament, said: "We have a lot of sympathy for Denmark and the Danish people. We can only regret that they have not shown a lot of understanding of the Maastricht texts."

Germany warned not to quit Euro fighter project

By David White and Robert Mauthner

MR Malcolm Rifkind, Britain's defence secretary, said yesterday that he still hoped to persuade Germany not to leave the Eurofighter project and warned that withdrawal would be "very damaging to Germany's credibility as a reliable partner".

Britain launches final EFA sortie Page 2

He issued a severe warning of the political implications if Bonn did withdraw, referring to the recent arguments within the EC and Nato about plans for European defence.

"I don't think it is possible for the German government on the one hand to speak robustly about the desirability of a European defence dimension and European co-operation, and at the same time consider withdrawing from the single most important example of European defence collaboration at the present time," he said.

He said he understood Bonn's predicament in the face of parliamentary pressure against the approval of funds for pressing ahead with the programme.

It would however be "unfortunate" to consider withdrawing from a 20-year project "simply on the basis of an immediate short-term parliamentary handling problem".

An effort was needed within weeks to identify potential savings so that decisions may be taken on the basis of up-to-date cost estimates.

In an interview with the Financial Times, he said there was "very considerable scope" for cost savings in the project, up to now involving the UK, Germany, Italy and Spain.

Senior UK and German officials are due to meet in London today to advance discussions about ways of reducing the cost of producing the aircraft, now in the late stages of development.

Mr Volker Rühle, German defence minister, who has made clear his opposition to continued German participation, is expected to discuss the project with Mr Rifkind during a ministerial meeting of the Western European Union, a nine-nation defence grouping, in Germany next Friday. Mr Rühle is due for further talks in London on July 6.

Mr Rifkind said that although Mr Rühle had stated his own "personal recommendation", the German government had not yet reached a decision.

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Mr Rifkind said he was encouraged by "growing representations" within Germany in favour of the project, including those from industry and the CDU, the Bavarian party in the governing coalition.

He said Germany would face costs if it backed out but this would depend on the manner of its withdrawal.

A decision to withdraw now would be premature, he added. There was no need for the partners to commit themselves on production of the aircraft until "sometime in 1993".

UK officials are confident of Italy's determination to remain in the programme, which aims to bring the new fighter into service in 1998. However, they are concerned that Spain might leave if Germany does.



Jacques Delors: he blamed growing scepticism about closer European union on the EC's failure to explain itself

UN paves the way for supply troops in Sarajevo

By Judy Dempsey in Belgrade and Jurek Martin in Washington

UNITED NATIONS military officers arrived in Sarajevo yesterday to prepare the way for 1,000 UN troops who hope to lift the siege on the city's airport and allow the transport of supplies for thousands of residents.

The officials hope to arrange the removal of all anti-aircraft weapon systems held by Serb irregulars surrounding the airport and oversee their withdrawal from the vicinity.

UN officials stressed that the operation "was highly dangerous" since it depends on all sides honouring a ceasefire. They also warned that they did not have the means to provide air cover for the troops.

Mr Cedric Thornberry, the UN's chief negotiator said: "Ceasefires come and go, but we have to keep trying."

Last weekend Mr Thornberry forged an agreement between the Bosnian presidency and the Bosnian Serb army, led by General Ratko Mladic and Mr Radovan Karadzic, to reopen the airport.

A senior US Senator warned that military action might be needed to curb Serbia's territorial ambitions.

In Washington, Senator Richard Lugar, the Republican from Indiana, said: "The time for

Continued on Page 16
Calm before the storm, Page 14

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NEWS: EUROPE

Lithuania averts political crisis

By John Lloyd in Vilnius

THE government of Mr Gediminas Vagnorius, the Lithuanian prime minister, narrowly survived a vote on his resignation on Tuesday night and will now continue to govern until elections in the autumn.

Mr Vagnorius has claimed that the bitterly-divided parliament has prevented the passing of urgent laws and has been unable to agree a new constitution for the country.

At the same time, the failure of Mr Vytautas Landsbergis, the chairman of the Lithuanian Supreme Council, to get support in a referendum last month for the reintroduction of the office of president has weakened his authority and that of the right-wing government which he appointed.

Ministers said yesterday that no decision could be made on

the presidency or on the constitution for some months. At least four versions of a constitution are now drawn up, with their authors being split between options which call for a strong presidency - favoured by Mr Landsbergis - and those which call for a strong parliament, favoured by the opposition groups on the left.

Mr Algirdas Saudargas, the foreign minister, said that "we have no stable majority in parliament but the left-wing is also divided. They don't really want to govern, so we will carry on."

Lithuania, like Estonia and Latvia has so far been unable to persuade the Russian government to agree to its demands to withdraw the 35,000 Russian - formerly Soviet - troops from its territory. A meeting between Mr Landsbergis and Mr Boris Yeltsin, the Russian president, in

Moscow at the weekend ended only with a vague promise from Mr Yeltsin to speed up their withdrawal. However, General Pavel Grachev, the Russian defence minister, has said that the troops will not be fully withdrawn until 1993.

The politics-weary Lithuanians are being asked to vote again on Sunday on whether or not they wish the Russian army to leave the country - a move aimed at putting further pressure on the Russian government, and also at convincing the west to give further support to the demand for withdrawal. However, the vote is widely seen as unnecessary and potentially damaging if there is a large abstention.

Economic reform has proceeded rapidly in Lithuania, with 50-60 per cent of flats and many small businesses and shops privatised, and with a claimed 45,000 farms trans-

ferred from state to private hands.

Meanwhile, the planned introduction of a stock market on July 1 is likely to be delayed by two months.

The introduction of the new unit of currency, the Lit, has been delayed and will not happen until the end of the year. An economic programme is now being discussed with the IMF, with further negotiations timed for next week.

Mr Vytenis Aleskavicius, the minister for foreign economic relations and the main economic reformer in the government, said yesterday: "We need a period of stability urgently in order to introduce the new currency and to cope with the economic shocks associated with it."

"But I think that the direction of policy is now so clear that any government will have to continue our policies."

Slovaks rule out talks with Havel

From Arlene Genillard in Prague

THE prospects for successful talks on the future of the Czechoslovak federation faltered again yesterday as the Slovak nationalists ruled out a meeting with the Czechoslovak president, Mr Vaclav Havel.

Mr Vladimir Meciar, the newly-elected leader in the Slovak republic and his Czech counterpart, Mr Vaclav Klaus, were to meet President Havel today in Prague to continue their attempts to agree on a reduced federal state which would bind the Czech and Slovak republics together. They will instead meet without the president.

Mr Havel's presidential reelection could become the biggest stumbling bloc in negotiating a federal structure. Mr Meciar has pledged to block the reelection of Mr Havel in the federal parliament after the latter called on voters not to support candidates with "dictatorial tendencies". But the Czech side has refused to back down on its support for the president, with Mr Klaus saying it was "the basis for any further negotiations".

A first meeting between Mr Meciar and Mr Klaus on Monday night only revealed the extent to which both men disagree over the future of the country, with Mr Klaus unambiguously rejecting the Slovak demands for some sort of economic and defence union.

Mr Klaus, however, called for the quick formation of a government before July 5 when the presidential election is due in the federal parliament. But Mr Meciar told reporters this scenario was highly unlikely.

According to Mr Meciar, any federal structure would be temporary until a referendum on independence is held in Slovakia, possibly by the end of the year. He also said that a referendum should be initiated by the Slovak parliament and not the federal parliament as the law currently stipulates.

The new Slovak parliament is likely to take a series of measures violating federal law. Mr Meciar, together with Mr Peter Weiss, leader of the renamed communist party in Slovakia which came out second in last weekend's elections, said they would immediately abolish in the republic the federal law which forbids former high-ranking communist officials and secret police agents from holding public office for five years.

Mr Meciar is believed by his opponents to have reneged, in his short spell as Slovak interior minister after the revolution, on his promise to evidence on his relations to the secret police.

The break-up of Czechoslovakia would probably lead to a significant renegotiation of at least the trade elements of the country's association agreement with the European Community, according to a senior Czechoslovak official, writes Ian Rodger in Basel.

"One party to the agreement would no longer exist so we would have to negotiate separate agreements or else find some *modus vivendi*," Mr Zdenek Drahok, of the federal economic ministry, said. Mr Drahok was attending a conference on problems in eastern Europe, sponsored by the Institute for East-West Studies.



A worker prepares missiles for loading on a Russian MIG-29 fighter jet at the factory test facility at Lukhovitsy, about 100km south-west of Moscow. Russia hopes to find foreign buyers for the aircraft when it appears at the Berlin air show this week.

Ukraine mine deaths fuel anger

By Christa Freeland in Kiev

THE accident on Tuesday at the coalmine in Ukraine, which has claimed at least 55 lives, threatens to spark protests against the deteriorating economic conditions in Ukraine by the well-organized Russified miners from the eastern regions of the country.

The accident, a methane gas fire, was at the Sukhodolska Shchukina mine in Luhansk, the easternmost region of Ukraine. By late yesterday afternoon rescue workers had recovered 55 bodies and expected to find more buried in the deep mine shafts.

Before the accident the miners of the Donbas region had planned to picket the Ukrainian parliament in Kiev and the disaster is likely to add to their anger.

Mr Yuri Bolshakov, a dynamic union leader, said that next week the miners would push their demands for greater regional economic autonomy, higher wages, and the removal of the conservative prime minister, Mr Vitold Fokin.

Russia's young generals to overhaul the army

Yeltsin in defence shake-up

By Layla Boulton in Moscow

PRESIDENT Boris Yeltsin yesterday appointed army commanders to top positions in the new Russian defence ministry and called for effective borders with the Baltic republics in an attempt to stop western spies from infiltrating Russia.

In a move going some way to restoring the land forces to their traditionally dominant role, Colonel-General Viktor Dubynin, former commander of Soviet armed forces in Poland, became first deputy defence minister and chief of staff. Colonel-General Valery Mironov, commander of Russian forces in the Baltics, will be deputy minister responsible for personnel and training. The two other new deputy ministers are Colonel-General Vladimir Toporov, until now the commander of the Moscow military district, and General Georgy Kondratiev, who has been in charge of the Turkmen military district which covers all of Central Asia.

Since key army commanders supported the abortive August coup against President Mikhail

Gorbachev, the army's influence has been curtailed with the air force supplying the Commonwealth defence minister, Marshal Yevgeny Shaposhnikov. The Russian defence minister, General Pavel Grachev is a former paratrooper.

Apart from loyalty to President Yeltsin and their contacts in politically sensitive areas such as the Moscow military district, another trait of the new men is their relative youthfulness, with most in their late 40s.

Illustrating his difficult balancing act in pushing through unpopular economic reforms and keeping conservative forces happy, President Yeltsin told a meeting of top military men that there was no alternative to recent price rises but promised officers an 80 per cent pay increase.

Speaking ahead of a trip to the US next week, during which both sides hope to conclude fresh cuts in long-range nuclear weapons, he also accused Washington of seeking unilateral advantage over Russia in current arms negotiations.

Mr Yeltsin assured the top brass that he would resist US attempts to dictate nuclear arms cuts that would strip Moscow of its multiple-warhead, land-based missiles, the heart of its force, but leave Washington with potent sea-launched systems.

"If such a decision is taken, the United States would find itself in a more advantageous position," he told the gathering at the white marble "Russian Pentagon". The existing accord would force the US to cut its arsenal from 12,000 to about 10,000 nuclear warheads and the ex-Soviet states to slash their arsenals from about 10,000 warheads to 8,000.

Both sides are seeking further reductions, with Washington proposing a 4,700 ceiling and Moscow advocating 3,500.

He also said in an interview that he had ordered a tightening of borders with the Baltics because their lax entry formalities allowed foreign agents access to Russia. He also said Russia needed a proper border with Azerbaijan because it had introduced "visa-free entry from Iran and Turkey".

Romania emerges from a long winter

The economic situation is improving despite political setbacks, writes Virginia Marsh

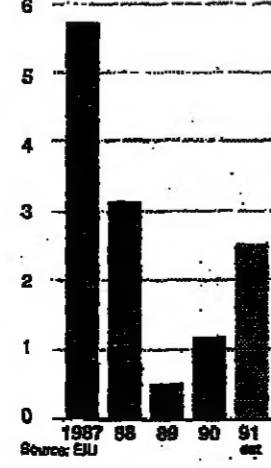
THE International Monetary Fund's decision last month to grant Romania a stand-by credit of \$500m and World Bank agreement on a \$400m loan for 1992-3 are proof that the country's economic situation is improving, even while it continues to struggle with the issue of electoral legislation.

Romania has stabilised considerably since September when three days of miner-led riots in Bucharest toppled Mr Petre Roman's reformist government. In contrast, this winter was marked by an absence of unrest with few work stoppages or popular protests, despite the further erosion of living standards experienced by most Romanians.

Romania has also begun to receive more support from the outside world, after two years of diplomatic isolation. Last month, talks began for Romania's associate membership of the European Community, while the country has recently signed bilateral treaties with Germany, Greece and several former Soviet republics.

Above all, US-Romanian relations have improved, culminat-

Romanian external debt



ing in last month's visit by Mr Lawrence Eagleburger, deputy secretary of state, the most senior US official to visit Romania since early 1990.

But perhaps the greatest reason for increased optimism is that the government, led since October by Mr Theodor Stolojan, an economist, has begun to tackle economic reform once

more. In recent weeks, the government has unveiled a new economic strategy, drawn up with the help of the IMF, which withheld its final tranche of credit last year.

The immediate goal is to stabilise the economy which is performing at below 65 per cent of 1989 levels. More specifically, the new strategy aims to halt the decline in production; control inflation which has averaged more than 14 per cent per month so far this year; and build up the country's gold and hard currency reserves, currently at a little below \$1bn, ahead of next winter's fuel imports which this year cost the country around \$500m per month.

So far, the government appears to be putting its strategy into practice, albeit slowly. In the past month the national bank has raised interest rates from 28 per cent to 80 per cent, ended restrictions on companies' hard currency holdings and begun to devalue the leu, the national currency.

However, while Romania's position has undoubtedly improved, an optimism is tempered by a look to the

immediate future. Rising unemployment is liable to increase social tensions. As the government admits, its anti-inflationary policies will at least double unemployment to more than 1m, or around 12 per cent of the workforce, by the end of the year. For many Romanians, with average real incomes already reduced by more than 30 per cent since 1989, the months ahead will be even more difficult.

In the meantime, the political outlook is discouraging. A dispute between the government and parliament over the timing of general elections (which should have been held before May 20) resulted this week in a parliamentary rejection of electoral legislation. Romania is now unlikely to hold elections before October. The decision comes as a blow to Mr Stolojan, a non-partisan caretaker prime minister, who has won support for his economic policies but has been unable to convince an increasingly divided parliament of the need for electoral legislation.

Until elections take place, there is unlikely to be a signifi-

cant upturn in foreign investment, which on March 31 had only reached \$188m in the period since January 1990. Nor are donor countries expected to pay up pledged credits and aid of more than \$2bn for 1992, money the country desperately needs to undertake further reform.

At the same time, parliament's in-fighting has held up legislation critical for reform. The country is still without an adequate bankruptcy law or legislation to re-establish a stock exchange, while delays in passing new foreign investment regulations are holding up an important exploration deal involving four western oil companies.

Meanwhile, Mr Stolojan, who is not expected to stay in politics, courageously soldiers on. He says he is implementing his strategy ahead of the elections because it represents the only course of action available.

But the questions remain. Future governments, faced with one of eastern Europe's weakest economies and high unemployment, may not have the strength to continue what he has started.



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Mexico faces hard choice in keeping oil out of Nafta

In the first of a series on the North American free trade area, Damian Fraser looks at the effect of the proposed pact on the Mexican oil industry



WITH Cuba, Argentina, and the ex-Soviet Union all opening up oil exploration to foreign companies, Mexico's reform-minded government might be expected to do the same. But wary of Mexico's most potent nationalist symbol, the government insists that the North American Free Trade Agreement (Nafta) will not allow foreign exploration of Mexican oil, nor lead to the privatisation of Petroleos Mexicanos (Pemex).

President Carlos Salinas at Pemex's recent 54th anniversary was clear enough: "The property of oil stays uniquely and firmly under the control of the Mexican state". Mexican trade negotiators have repeated this so often, that there can be little doubt that risk, or wildcat, contracts will not be permitted.

The US, sensitive to Mexican nationalist sentiment, has in any case stopped short of demanding changes that would allow wildcatting.

The government has ordered

Pemex to produce plans for radical reform following the Guadalajara gas explosion in which more than 200 people died. The company is likely to be broken up into subsidiary companies looking after areas such as exploration, refining and gas sales, with the core company operating as a giant contractor. While the government does not intend to sell Pemex, at least in the short term, the reform is likely to lead Pemex to contract out much more work to foreign companies.

In the meantime, the US is eyeing other opportunities. The petrochemicals industry is calling for direct investment in Mexico's basic petrochemicals; the gas and oil companies want to sell gas and refined products to the Mexican end-user; contract companies want to make it easier to sell Pemex equipment, and to carry out drilling and other services. The US government may also want a secure oil supply from Mexico guaranteed. Pemex has balked at such demands, but the Mexican government will concede most of them, as it plans to turn Pemex into a modern and lean oil company,

focused on production and exploration.

Plans to modernise Pemex pre-date the latest reform programme as well as negotiations over Nafta. The government cut the number of petrochemicals reserved to the state to 19 in 1989, and has made clear the number will be cut further after Nafta is signed.

Likewise, Pemex has already decided to follow the path the big oil independents took in the 1960s and contract out drilling work to specialist companies. These turn-key projects, to be financed by a \$1.3bn loan from the US Eximbank, do not break Mexico's constitution, since the company's payment does not depend on the amount of oil found. The first such project was awarded to Triton International last spring, which drilled into the ocean in a record 127 days, half Pemex's normal time. Since then, EPN Sonat, a joint venture between Sonat of the US and the Mexican EPN Arval has won two contracts worth \$100m to drill six wells in the Bay of Campeche.

The turn-key projects will not attract the big US oil companies, who rarely do drilling



Mud blowing back at a Mexican rig: Pemex is now likely to contract out such work

contract work, says Mr Ed Porter of the American Petroleum Institute in Washington. Instead, the market will be left to the small independent engineering and drilling companies. Nafta will make such con-

tracts easier for US and Canadian companies by cutting the paperwork, middlemen, and preference Pemex has in the past shown to Mexican contractors.

Perhaps, above all, says Mr Rafael Quijano, of the Petroleum Finance Corporation in Washington, and a former Pemex employee, Nafta will "create an environment in which contract business can flourish". But given that total

Pemex investment in exploration and production is \$1.7bn this year, the contract work might be worth at most \$500m a year.

Many foreign oil companies still hope Mexico will relax regulations against foreign equity investment, but some time after Nafta is signed. Even by the most pessimistic estimates, Pemex has 30bn barrels of crude equivalent in oil reserves, and thus a production reserve ratio of 21-1, double that in the US.

Pemex's pressing economic problem is not in finding oil, which is what the big oil independents can offer Mexico, but bringing it up to the ground. That kind of work does not require risk contracts.

The US gas producers may have more luck than the big oil independents. Imports of natural gas into Mexico have grown rapidly, because of greater industrial development along the border, and stiffer environmental regulations.

Demand is expected to continue to rise, which would require substantial investment in new gas pipelines. Mexico may let US companies build the pipes, but this would require changing current regulatory law.

While Pemex may be unwilling to abandon its monopoly in energy exploration, it desperately needs help in refining

products: Pemex imported a record \$1.25bn of petroleum and petrochemical products last year. It intends to build a new refinery in central Mexico soon, and expand production at existing ones, at a cost, according to Petroleum Intelligence Weekly, of at least \$8bn. Pemex is looking for a foreign partner in building and financing a refinery, although Pemex will operate the facility.

The trouble for Pemex is that little foreign interest has been shown in the schemes Mexico has proposed. Engineering companies do not want to receive payment in refined crude. Oil companies do not want Pemex to operate the final facility, and would like to sell oil they have refined in the Mexican market.

One foreign oil executive suggests that as Mexico's import bill for refined products climbs, the government will open up refining and the sale of refined products to foreign oil companies, some time after Nafta is signed. The Guadalajara disaster, for which Pemex was blamed, is increasing the pressure for change.

However, opening up exploration and production remains difficult, since the property of oil would still remain "firmly in the hands of the state". Further articles on Nafta will appear on this page in coming weeks

West 'blocks exports from Bangladesh'

By Francis Williams in Geneva

EFFORTS BY Bangladesh to liberalise its trade regime and boost exports are being handicapped by trade barriers in rich western countries, the General Agreement on Tariffs and Trade (Gatt) says in a review of the country's trade policies.

Discussing the report yesterday, Gatt's governing council called for improved access to foreign markets for Bangladesh's exports, reinforced by "adequate financial and technical assistance", to support continued trade reform.

The report notes that non-traditional exports such as clothing and frozen fish have grown rapidly since the early 1980s while traditional exports such as jute, leather and tea have stagnated. But Bangladesh's export base remains narrow with these five areas accounting for over 80 per cent of export. Moreover, clothing exports to the west are now subject to quota restrictions under the Multi-Fibre Arrangement and other bilateral arrangements, and other exports face a variety of tariff and non-tariff barriers.

The Bangladesh government

has been particularly stung by a US decision to impose anti-dumping duties of up to 42 per cent on shop towels from Bangladesh. In 1990 these imports, which are used for wiping machine parts, amounted to a princely \$2.46m.

With few natural resources and a tiny industrial sector, Bangladesh's export income covers only 40 per cent of import needs, leaving 60 per cent to be financed by overseas aid. Its 105m people have an average income of less than \$200 a year, making Bangladesh one of the poorest of nations.

The Gatt report urges "a more sympathetic external environment" to encourage Bangladesh's export potential and underpin continued economic liberalisation. "The elimination of barriers in key export markets" would help to reduce transitional unemployment and balance-of-payments problems, it says.

Trade reforms begun in 1985 have had some success in reducing protection, encouraging exports and improving economic efficiency, the report adds. But Gatt criticises the Bangladesh government for spending too much propping up loss-making companies.

Doubts surround big Java chemicals plant

By William Keeling in Jakarta

CONSTRUCTION of the \$1.6bn (€870m) Chandra Asri olefin (petrochemical) plant in West Java may be delayed by uncertainty over the security of a \$550m line of credit from state-owned Bank Bumi Daya (BBD).

The Indonesian government has said BBD's irrevocable letter of credit must not be drawn down, but bankers close to the project say contractors, including Japan's Toyo Engineering, may have to call on the facility.

Uncertainty over the facility is adding to delays finalising the remaining finance, about half the project's total cost, required for the project's completion. Bankers say committed finance includes BBD's credit and a further \$212m of loans drawn down as equity for the project.

Last October the government said Chandra Asri was being postponed until after 1995, although BBD's letter of credit had already been signed and purchase orders made. The decision was part of a government move to cap state finance for large projects prompted by Indonesia's growing international debt.

The project was first announced in March, 1991, and backers include the Bimantara Group run by President Suharto's second son, and Mr Pradjogo Pangestu, a prominent Indonesian businessman.

Last April, the government gave the project the go-ahead on condition that its cost was reduced to \$1.6bn from \$2.25bn, and that it proceeded under full foreign ownership using offshore finance.

The government said the project's connection with the BBD had to end, and its credit viewed as bridging finance.

However, "the text of the (BBD) letter of credit has not been altered," said one banker. Instead, shareholders have undertaken to government to raise alternative finance if BBD's facility is called on.

"This undertaking, however, does not alter BBD's (legal) obligation to pay up," the banker stressed.

In mid-1991, Toyo Engineering placed purchase orders and some large items, including turbines, have been supplied. Toyo Engineering may soon have to call on BBD's letter of credit, say bankers, and would have to pay almost the full amount to suppliers if equipment cancellations are made.

"The question, of course, is whether the shareholders have any money" to fulfil their undertaking, said a banker.

The Bimantara Group had a turnover last year estimated at Rp14.2,200bn (\$1,075m) but industry officials say other projects in which it is a shareholder have been delayed by lack of finance.

If the shareholders fail to arrange alternative finance, BBD will be obliged to pay, or breach the loan's covenant. The government plans to make state banks into limited liability companies, but bankers say failure to pay would be tantamount to breaking a sovereign guarantee.

Although the government has said it will not fund the Chandra Asri project, bankers say it will wish to protect Indonesia's reputation of meeting international obligations.

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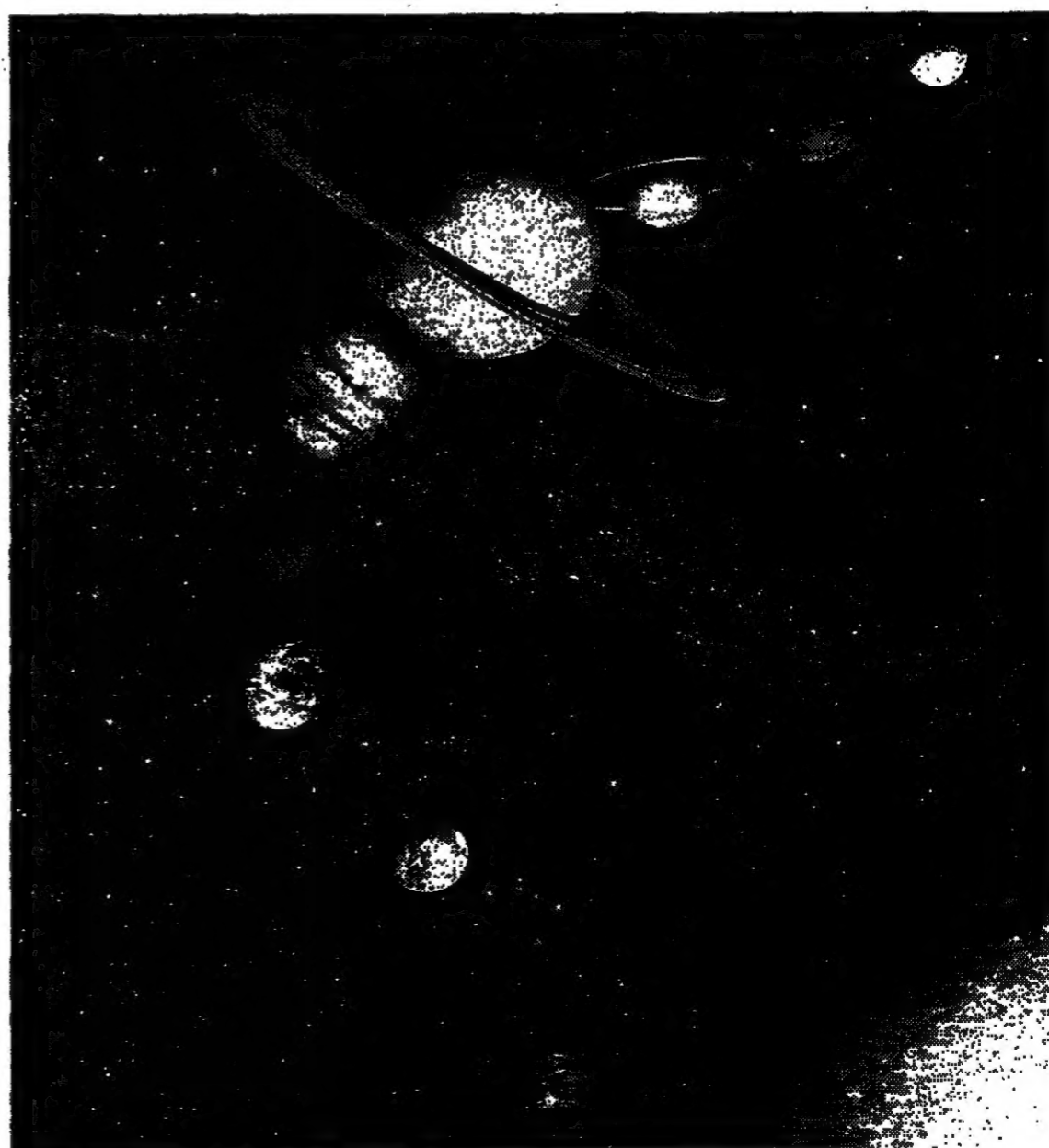
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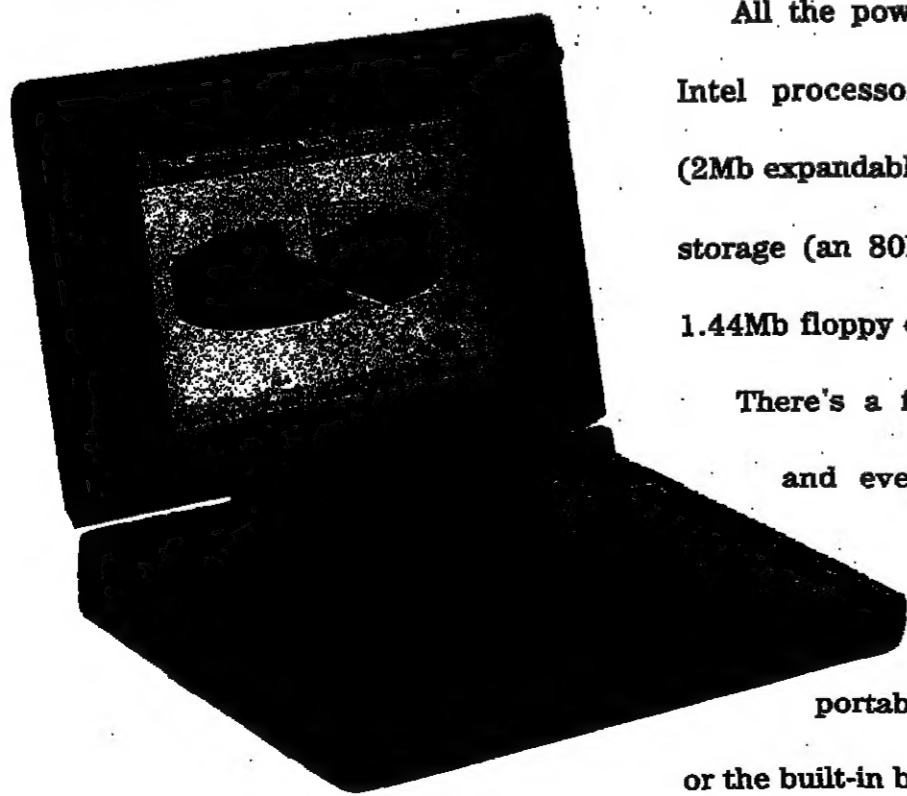
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Civilian named as Thai premier

By Victor Mallet and Peter Ungphakorn in Bangkok

MR ANAND Panyarachun, a respected businessman and former diplomat, was re-appointed as prime minister of Thailand last night by a surprise edict from the royal palace which paves the way for new elections.

The appointment is likely to provide at least a temporary solution to the country's two-month political crisis, which culminated in the shooting of 49 pro-democracy demonstrators by troops last month and the resignation of Gen Suchinda Kraprayoon, the previous premier.

"I understand that my main duty will be to organise the elections," Mr Anand said last night. He said that he would probably dissolve the existing parliament in two or three weeks and that his government would last a total of about four months.

He said he would attempt to repair the damage done to the economy by the violence, although it would take time to restore the vulnerable tourism industry. "The economic fundamentals are still strong, so it will not take us very long to improve the local economy," Mr Anand said.

The proposed delay in the dissolution of parliament will allow time for military leaders to testify next week before a committee of

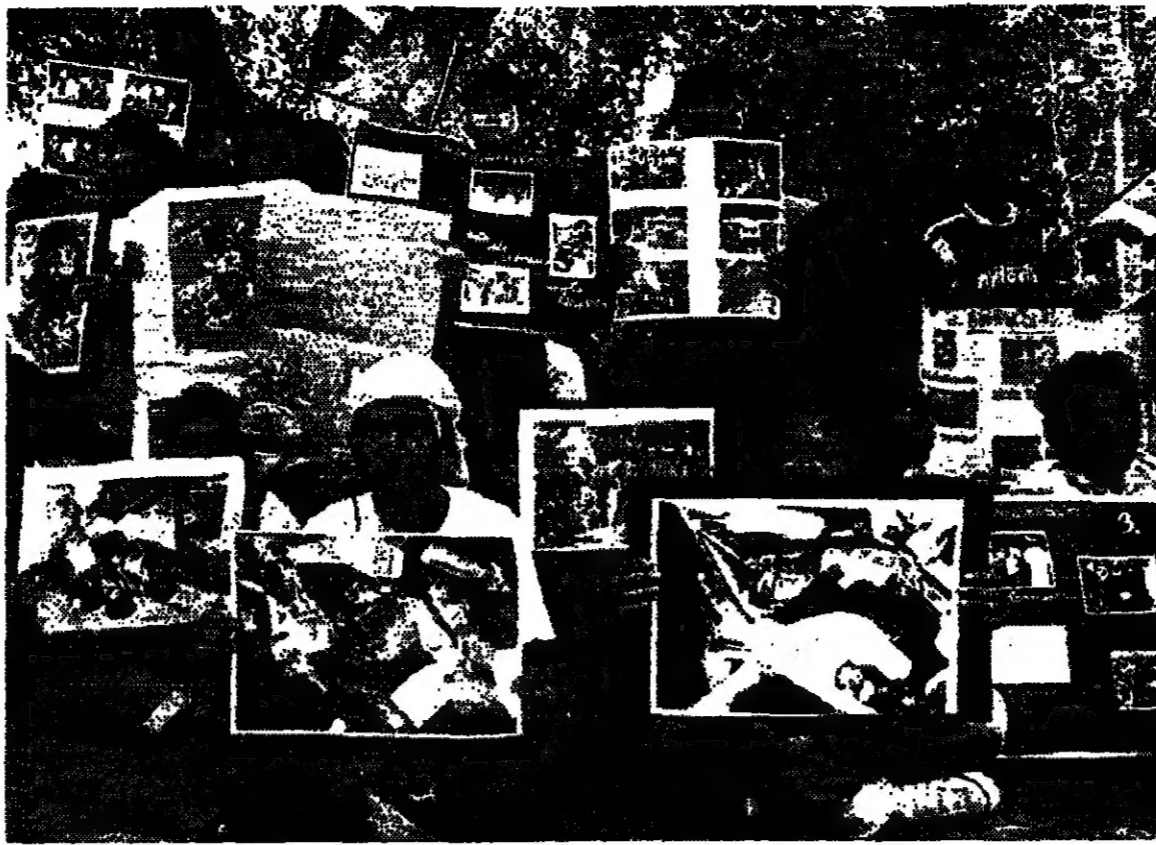
MPs investigating the violence.

Yesterday parliament gave final approval to constitutional amendments demanded by the opposition and the demonstrators, including a provision that the premiership be restricted to elected members of parliament. Mr Anand has not been elected and the amendments will become law as soon as they are printed in the royal gazette.

Opposition politicians want to reduce permanently the influence of the military in politics, but they fear that new elections will not necessarily overturn the pro-military majority in parliament. Vote-buying is common in rural areas.

Mr Anand said Mr Arthit Uthairat, the speaker of parliament, telephoned him at 5.30pm Bangkok time yesterday and asked him to be prime minister to break a political deadlock: the governing coalition of pro-military parties were backing a candidate unacceptable to the Thai people, while the opposition was supporting an acceptable candidate but did not have enough seats.

In a statement released later, Mr Arthit said Thailand was facing a crisis and the appointment of a poorly chosen prime minister "is a decision which could lead to violence and catastrophe". He said his solution would return sovereignty to the people. "I have carefully considered the



Thai demonstrators display pictures of victims of last month's military crackdown yesterday in Bangkok

situation," he said. "For all parties to compromise and for democracy to prosper I propose Anand Panyarachun." It was unclear whether the surprise appointment had been initiated by the speaker or the king. Shortly before the announcement, Air Chief Marshal Somborn Rahong, the controversial pro-military candi-

date whose appointment could have led to renewed demonstrations, told reporters that he would be the new prime minister.

A celebration party was even being prepared at his house. Air Chief Marshal Somborn, however, said after hearing of Mr Anand's appointment that he was relieved that a burden

had been lifted from his shoulders. "I am really happy," he said.

Mr Anand won praise from foreign investors and local businessmen for economic reforms and a drive against corruption in his year-long tenure as prime minister between the military coup d'état of February 1991 and the elections in March this year.

Khmer Rouge raise threat to UN peace plan

By Victor Mallet in Bangkok

KHMER Rouge guerrillas have told the United Nations they will refuse to co-operate fully with a UN plan to bring democracy to Cambodia, throwing the peace process into doubt three days before the country's various armies are due to start regrouping their forces and handing over their weapons.

"This constitutes a clear breach of the (October 1991) Paris agreement, and is therefore extremely unacceptable," Mr Yasushi Akashi, head of the UN Transitional Authority, (Untac) said yesterday.

The letter sent to Mr Akashi by the Khmer Rouge announcing its refusal to allow Untac forces into Khmer Rouge areas to monitor the cantonment was the culmination of weeks of obstructive tactics. The organisation murdered 1m Cambodians during its rule over the country between 1975 and the Vietnamese invasion of 1978.

Khmer Rouge leaders claim that they cannot co-operate fully with the UN until they are sure that there are no Viet-

namese troops left in Cambodia.

UN officials and various governments have appealed to China and Thailand, the main backers of the Khmer Rouge, to persuade them to co-operate with the UN plan, which is supposed to lead to elections in less than a year.

Mr Akashi said the cantonment of forces would proceed as scheduled from June 13, although it would begin only in selected areas to avoid endangering the security of the other three factions. At least one of the factions said it could not regroup its forces unless the Khmer Rouge did likewise.

The Khmer Rouge letter comes at a critical time for the peace plan, but Mr Gareth Evans, the Australian foreign minister, described it yesterday as "brinkmanship" and "more in the nature of bluff and puff than a very real threat to the process". It is not clear, however, what the UN can do to enforce Khmer Rouge compliance in the immediate future other than issue a stern statement through the Security Council.

HK airport a 'robust business'

By Simon Holberton in Hong Kong

THE Hong Kong government yesterday released figures showing that the colony's proposed airport will be a "very robust business" from its opening in 1997, as discussions with China over the financing of the project are elevated to prime ministerial level.

The airport's revenue is forecast to reach HK\$22.7bn (£1.6bn) by 2010 - enough to provide operating profits of HK\$10.4bn after recurrent capital expenditure and taxation, the government said.

Officials said the release of further financial information coincided with a meeting between Mr John Major, Britain's prime minister, and Li Peng, his Chinese counterpart, in Rio de Janeiro today.

Mr Major is expected to raise with Li China's procrastination about airport financing. Hong Kong officials hope the two premiers can achieve a breakthrough where diplomatic channels have failed.

Officials are concerned that China's failure to approve the financing for the new airport may cause its already tight construction schedule to slip.

Li told Lord Wilson, the colony's retiring governor, earlier this week in Beijing that China supported the new airport project and was keen to see it built on time. However, discussions with the Chinese about the financing of the airport and related projects are now in their third month.

A memorandum Britain and China signed last September specified talks should take only one month. Hong Kong officials need China's assent to the plans before they are put to the local legislature before it rises in late July.

Indonesian ruling party keeps power

By William Keeling in Jakarta

INDONESIA'S ruling Golkar party has retained power with a slightly reduced majority from Tuesday's parliamentary election, with provisional figures indicating that its support has fallen 6 per cent from the 1987 result.

Golkar has captured 67 per cent of the 512 votes counted so far, compared to the 73 per cent it won five years ago. About 107m people were eligible to vote and the turnout was expected to be more than 90 per cent.

The United Development Party (PUP), a loose coalition of Muslim groups, has taken 17.5 per cent of the vote, up from the 16 per cent in 1987. The nationalist Indonesian Democratic Party (PDI) benefited most from reduced Golkar support, increasing its vote from 11 per cent to just over 16 per cent.

Golkar's clean victory in an election free of violence has been welcomed by Jakarta's financial community. One foreign broker noted that "the market was especially strong, a clear sign of foreign investor confidence".

With Golkar enjoying almost the total support of the country's 4m civil servants and much of the business community, the election was destined to be a one-sided contest.

Mr Rachmat Witoelar, secretary-general of Golkar, admitted: "There is a distinct advantage of having cadres who are well-settled, although he denied that Golkar has spent Rp90bn (\$24m) on the campaign.

Golkar won in all of Indonesia's 27 provinces, including the disputed territory of East Timor.

New Japanese store ponders vanishing customers

By Emiko Terazono in Tokyo

EIGHT HUNDRED employees and only 100 customers yesterday attended the grand opening of Japan's largest department store.

Conceived at the height of the 1980s economic boom, the Tobu company's ¥100bn

(\$25m) steel and glass palace opened its doors amid the steepest fall in consumer spending since the 1960s.

Cheer leaders and a brass band were on hand as white-gloved Tobu directors, led by the company president, simultaneously cut the red-and-white tape.

April department store sales fell 2 per cent from a year ago, after a 4.1 per cent drop in March, the worst fall since 1965. Some economists predict no upturn in consumer spending until spring next year.

Moreover, department stores, already hit by a sharp fall in sales of luxury items,

are finding customers are switching from high-margin goods with famous labels to non-branded products which offer retailers smaller profits.

Tobu certainly expected to see more customers on the first day - 90 policemen and 85 security guards were on duty during the ceremony yes-

terday morning. A man in his early twenties, at the head of the queue at the main entrance, said he had arrived two hours before the 9 am ceremony to be in front of the crowds. In the event, he need hardly have bothered.

Tobu expects to cover investment costs of the new store in

five years. For the year to next June, it expects sales of the new Ikebukuro store to total ¥150bn. However, most customers browsing through the store yesterday failed to contribute to revenues. A middle-aged woman who walked around the store finally left with a bag of croissants.

PNG warns on mining interference

By Kevin Brown in Sydney

PAPUA New Guinea (PNG) yesterday warned foreign governments and environmental organisations to stay out of a controversy over the impact of mining on its river systems and coastal waters.

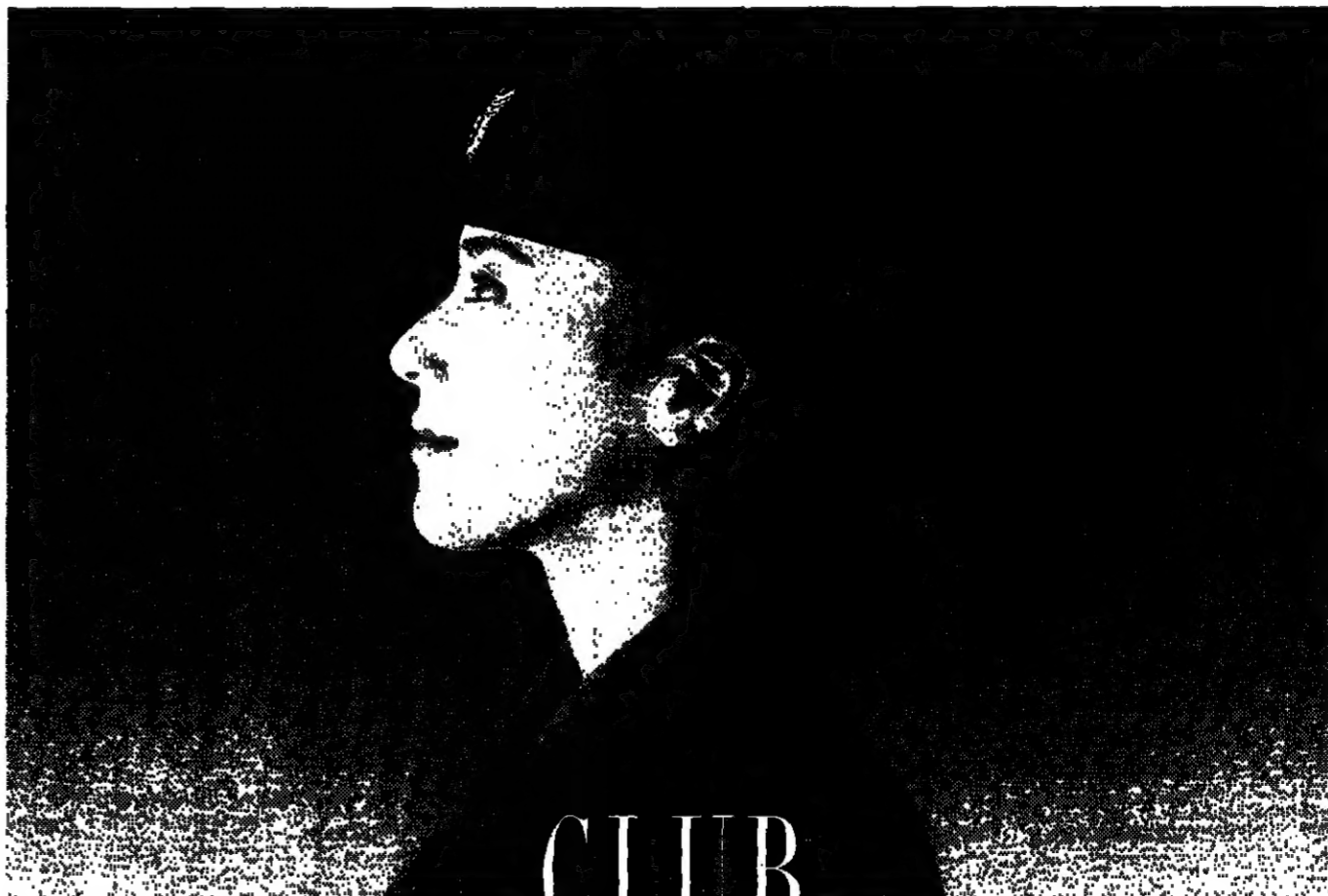
The warning followed revelations that Mr Paul Keating, the Australian Prime Minister, delivered a letter during an official visit in April which criticised environmental standards at the Ok Tedi copper and gold mine.

The mine has been strongly criticised by local politicians in PNG's remote western province, close to the border with Indonesian Irian Jaya. The provincial government has threatened to close the mine, but has not yet carried out its threat.

Ok Tedi Mining (OTML), the company which operates the mine, claims any environmental damage which has occurred is outweighed by the economic benefit to PNG of substantial gold and copper production.

OTML is owned by BHP (30 per cent), the PNG government (30 per cent) and a group of smaller shareholders. The mine is operated under an environmental agreement between OTML and the central government.

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NEWS: INTERNATIONAL

Libyan press assails Gadaffi over Arab ties

LIBYA'S official press has launched unprecedented criticism of Colonel Muammar Gadaffi's relations with fellow Arabs, and in an extraordinary twist has called for better relations with the US.

For the first time since he came to power in a 1969 bloodless coup, the idiosyncratic Col Gadaffi has been upbraided in the official Al Jamharyia or "State of the Masses" newspaper - mouthpiece of the regime.

"We say to you, you are free, go alone to your Arabism and your Islamic links. As for us, we have America. It is much better for us to co-operate with America than with all the Arabs because we have realised that our own interests are above all else," the Libyan news agency, JANA, quoted the paper as saying.

Libya-watchers believe that the criticism may have been orchestrated to provide Col Gadaffi with room for manoeuvre on the eve of a meeting this weekend of Libya's General People's Congress, or parliament.

Col Gadaffi has said repeatedly that it would be up to the parliament to decide whether to yield to either the US or Britain two Libyans accused of the 1988 bombing of an American airliner over Lockerbie in Scotland in which 271 people perished.

Calls for the Libyan leader to distance himself from his brother Arabs may also reflect intense disappointment at the decision of Arab regimes to fall into line with United Nations sanctions.

In April, following Libya's refusal to hand over the two men accused of the Lockerbie bombing, the UN Security Council implemented a sanctions package which included a suspension of air links and a thinning of Libyan diplomatic personnel abroad. The Arabs complied with the air embargo.

Col Gadaffi, who expressed great admiration for the late Egyptian leader Gamal Abdel

Nasser, has put Arab unity at the centre of his ideology, and has frequently proposed union with surrounding countries.

It is unclear whether the Al Jamharyia commentary might herald a change in policy, but its criticism of the Arabs was unambiguous. It charged them with having shunned Libya

Tony Walker reports from Cairo on a new twist in Libyan policy

and laughing at it while taking part in a "murder by instalments" through UN sanctions.

"We ask you what benefit did we get from our Arabism with the Arabs asking you to hand over our sons to the enemy and to obey Western demands and decisions," the paper said.

"... We ask you why do Arab workers benefit from Libyan oil... the Libyan oil should go to American workers if they benefit us or if we benefit from them... this is better than Arabism and Islam."

Libya is also being pressed to co-operate in investigations into the 1989 downing of a French UTA flight on its way from Brazzaville to Paris, in which all 171 passengers and crew were killed. France wants to question four Libyans in connection with the UTA bombing, including Col Gadaffi's brother-in-law.

JANA also reported on Tuesday that it had been taken over by "revolutionary forces", and that the agency's director had been dismissed. A commentary accused the previous management of purveying disinformation and attempting to "ridicule the people in the guise of slogans on Arabism and Islam."

"Henceforth JANA will be managed by the conscious revolutionary forces which know their interests and those of the Libyans," the JANA statement said.



Afghan children wait in line for food by the gate of one of Afghanistan's mujahideen headquarters in Kabul yesterday. The recently formed Islamic government has appealed to the international community for immediate relief to counter severe food shortages throughout the country.

Algeria frees Moslem activists

ALGERIA has freed 2,000 suspected Moslem activists from detention centres in the Sahara desert to mark the feast of Eid al-Adha, officials said yesterday. Reuters reports from Algiers.

About 1,200 people have been freed since March 21, out of the 7,448 detained under a state of emergency declared on February 9, official figures show. The official news agency APS said there would be further releases.

Suspected Moslem activists were rounded up after riots which were blamed on the Islamic Salvation Front (FIS), which was poised to take power in a general election cancelled in January

and has since been banned by court order.

Human rights groups have demanded the closure of the desert detention centres.

Meanwhile, Mr Mohammed Boudiaf, the head of state, has appealed to Algerians to join his Patriotic Rally - a new movement which excludes Moslem radical groups and which the authorities hope will undermine their grassroots support.

Mr Boudiaf dismissed calls from two leading political parties, the Socialist Forces Front and National Liberation Front, to replace the government with one of national unity.

Israel's politicians seek out the immigrant vote

ISRAELI politicians campaigning for the general election on June 23 have taken to stopping in a gigantic caravan park which sprang up a year ago just outside the southern city of Beersheva, on the edge of the Negev desert.

More than 1,000 mobile homes stand in the sand at Nahal Beza, forming a huge staging post for some of the 400,000 immigrants who have arrived in Israel over the past three years.

Since it opened last August, Nahal Beza has become home to some 5,000 newcomers from the Soviet Union and about one thousand "black Jews" from Ethiopia - interspersed by a few hundred Israeli university students strategically placed to forestall any clashes between people from such diverse cultures.

What new citizens of Nahal Beza - many of whom have a vote - want to hear from politicians is what they will do to create employment that will get them out of their immigrant ghetto into permanent housing and launched on the new lives they are seeking in Israel. "Jobs - that is the most important thing to them," says Mr Adi Habad, site manager.

The impact of immigration has sharpened the issue of the economy in a country where election campaigns tend to be dominated by the big political issues of the Arab-Israeli conflict. With unemployment at record levels and little sign of improvement, the opposition Labour Party has put economic policy high on its list of attacks on the record of the ruling Likud party.

This is not just to attract votes among the immigrants themselves, among whom unemployment is running at 40 per cent. Many of Likud's core voters in lower-income "Sephardi," or oriental Jewish, communities have also been feeling the pinch.

Beersheva is a prime example. Some 20,000 immigrants have boosted the population from 113,000 to 135,000 in less than three years. Some 25 per cent of the veteran population are of Moroccan extraction, many living in poor neighbourhoods. Increased public ser-

vices and construction activity have added to employment, but Beersheva has been hampered by industrial stagnation and cuts in big local companies such as Makhteshim Chemicals, an offshoot of the trade union-owned Koor Industries.

In the 1988 election, Likud took 43 per cent of the vote in Beersheva to Labour's 28 per cent. Local Labour campaigners, who are stressing economic themes, are aiming for 35 per cent this time, a figure

Hugh Carnegie in Beersheva looks at how the candidates in the coming general election are targeting this southern staging post for newcomers

they say would imply a Labour victory nationwide.

How bad is the state of the economy? Some indicators look pretty healthy. Growth last year was about 6 per cent. Employment grew. So did investment and business profitability and productivity. But these mask an underlying picture in which fast population growth has meant negligible per capita growth. According to the Bank of Israel, half of 1991 growth was due to a construction boom which is now over.

"In other industries there are as yet no signs that sustainable growth is about to set in," the bank said. Exports shrank last year, an ominous development for a sector supposed to be the engine of long-term growth. Workforce growth outpaced job creation, leaving unemployment now at a record 11.6 per cent. Inflation hovers above 15 per cent. In early 1992, the bank detected a decline in investment and economic activity.

Above all, it said, the government did "too little and too hesitantly" to invest heavily in infrastructure cut heavy taxes and government spending and institute reforms such as privatisation of the big state-owned

industrial sector and the banks - which in turn are big industrial owners in Israel.

Labour - having shed its ideological commitment to socialism - now calls for all these prescriptions to be implemented. It says there must be a "re-ordering of priorities" - stressing that the hundreds of millions of dollars spent by the Likud on Jewish settlements in the occupied territories could be redirected to investment in places such as Beersheva.

But the Likud, still proclaiming itself the party of liberal economics despite its poor record, has a point when it calls into question Labour's new-found market message. Mr Shalom Peri, Labour's campaign manager in Beersheva, makes no bones about what he is promising to voters who have lost their jobs in recent years. "People know the government must come with public investment. The Negev area will never develop through the free economy."

Many Russian immigrants are justifiably cynical about both parties, regarding them as captives of the system and their own vested interests.

They see Likud as being obsessed with the occupied territories and Labour still tied to the powerful Histadrut trade union federation which has resisted economic reform.

"It is absolutely chaotic. There is no serious progress to absorb the immigrants," says Mr Vladimir Gontar, formerly a laser technology expert in the Soviet Union now working at Beersheva's Ben Gurion University of the Negev. "Not the Likud, nor Labour has a serious programme for a new society based on the new brains which have come here, and that is perhaps the feeling of all the Russians."

Meanwhile, in a severe embarrassment to the government, the message has got back to Jews still living in the former Soviet territories, many of whom have judged that economic prospects in Israel are no better than at home. Russian immigration has slumped from 20,000 a month at the peak to less than 4,000 in May.

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CAN INVESTORS STILL RELY ON SHARES FOR INCOME?

As more and more analysts expect company dividends to be cut, we look at the prospects for investing for income.

IN THIS SATURDAY'S

Weekend FT

NatWest seeks ruling on Maxwell shares

By Robert Rice,
Legal Correspondent

NATIONAL Westminster Bank yesterday asked the High Court to settle the dispute over the ownership of shares in Teva, an Israeli pharmaceutical company.

The shares are held by the bank as security and are claimed both by the Maxwell pension funds and by the administrator of Robert Maxwell's estate, one of the Maxwell private companies.

NatWest said that if the court decided that beneficial ownership of the shares never passed from the funds managed by Bishopsgate Investment Management to RMG then it was prepared to relinquish the security and return the shares to the pension funds.

It, however, the court rules that title to the shares passed from BIM and the common investment fund to RMG before being mortgaged to the bank in return for a loan, then it would not return them, because it was a "bona fide purchaser for value without notice".

The 25m Teva shares, with a value of just under £20m, were mortgaged to NatWest as security for a new loan of £27.3m on November 7 last year.

Cleared to go: two private jets formerly owned by Robert Maxwell have been advertised for sale at a combined price of almost \$27m.

The Gulfstream IV and Gulfstream II are owned by VIP Aviation (Bermuda), part of Headington Investments, Mr Maxwell's main private holding company. They are being kept at a secret location to avoid the attentions of aggrieved Maxwell creditors.

The Gulfstream IV, with an asking price of \$21.5m, is lavishly fitted out and is powered by the latest Rolls-Royce engines. The Gulfstream II, with a price tag of \$4.8m, is a 15-year-old aircraft and Mr Maxwell was its fourth owner.

following an urgent request from the Maxwells for new monies to meet interest payments due on the MMC "Jumbo Facility" which had been used to fund the purchase of Macmillan.

The bank said the mortgage was taken in good faith after receiving written assurances that they were beneficially owned by RMG.

NatWest asked questions at the time before accepting the mortgage because the share

certificates were in the name of BIM.

The bank then took a mortgage in the same form from BIM as a guarantee for the RMG mortgage.

NatWest said yesterday it was only on December 5 when the Maxwell private companies went into administration that they were notified by the pension fund managers that the Teva shares might be trust assets.

NatWest said it had decided to ask the court to determine the issue because the administrators of RMG had indicated that the shares should not be voluntarily surrendered to the detriment of other creditors of RMG.

The court will also be asked to rule on the management and realisation of the Teva shares pending determination of the ownership issue.

Mr John Melbourne, a director of NatWest, said the bank was going out of its way to accelerate the legal process. He also said that NatWest will hold talks with the Department of Social Security on establishing a compensation scheme to help Maxwell pensioners.

Mr Melbourne believes that many City institutions would be prepared to contribute to such a scheme.

Labour tries to disguise party split on Europe

By Ivo Dawney,
Political Correspondent

BRITAIN'S opposition Labour party yesterday disguised its internal divisions over the Maastricht treaty by keeping open its options if the government tries to press ahead with ratification.

After a heated debate at the weekly meeting of the parliamentary party, MPs voted overwhelmingly to delay action on three diverging proposals on strategy, allowing the shadow cabinet to prepare a new position for presentation next week.

While the vote risked conservative charges that Labour is as undecided as the government on how to react to the Danish referendum result, it served to maintain an appearance of party unity.

The compromise was widely seen as a short-term tactical victory for the party leadership, which had initially responded to a demand from Mr Tony Benn for a British referendum by tabling an ambiguous amendment.

Its wording, drawn up by Mr Gerald Kaufman, foreign affairs spokesman, argued that while the Maastricht text fell far short of Labour's official European Community policy on a number of issues.

Rather than indicating a clear strategy, the shadow cabinet's line merely insisted that it would be "improper" for parliament to continue the ratification process until the Community had decided a clear way forward.

In consequence, the leadership's amendment fell a long way short of an alternative amendment tabled by Mr Peter Hain. His proposal, reportedly attracting growing support from many quarters in the party, criticised the Maastricht accord for its narrowly monetarist criteria for economic and monetary union and called for outright Labour opposition to ratification.

In Strasbourg this week, Mr John Smith, all but certain to be the next Labour leader, appeared to be giving some ground to the position of his rival by stressing the need for more democratic accountability in the EC.

While repeating his own firm support for Labour's qualified backing for the Maastricht accord, he also made clear that it should pursue with its sister socialist parties an economic strategy "based on sustainable growth and the highest possible levels of employment".

Tighter rules planned for directors

By Norma Cohen,
Investments Correspondent

NON-EXECUTIVE directors will no longer be able to serve on more than one board because of their obligations under new proposals on corporate governance, Sir Adrian Cadbury said yesterday.

"The days of the multiple director are over," said Sir Adrian, chairman of the corporate governance committee which last week proposed that non-executives be given greater responsibilities. As a result, he said, a presence on more than one board will cause strains on time and efficiency.

Sir Adrian, speaking at a Confederation of British Industry conference on corporate governance, said his committee's proposals meant that far more individuals would have to serve as non-executives than

at present. "The current network system [of selecting non-executives] draws on the narrow pool. That must be changed and we must look to non-traditional sources for non-executives," he said.

The Cadbury Committee on Financial Aspects of Corporate Governance recommended a voluntary code of practice for boards of directors, accountants and auditors.

Among its key recommendations are that audit committees be composed exclusively of non-executives; non-executives have no financial, commercial or personal interest in the company; and they be allowed to solicit independent advice on board decisions.

The committee, initiated by the accountancy profession and the Stock Exchange, is backed by the Department of Trade and Industry and the

Bank of England. It included representatives of industry, accountancy groups, shareholders and government.

Separately, the government signalled yesterday that if the voluntary code urged by the Cadbury committee appeared to be having little effect, it would reluctantly consider regulations instead. Mr Neil Hamilton, corporate affairs minister said at the CBI conference he believed the Cadbury committee was right to support a voluntary code.

"If a sufficiently strong case for further action were to emerge, taking into account the wider issues which the Department [of Trade and Industry] has to consider, the government would not be true to its past record if it did not take action," he said.

He believed it unlikely, however, that companies and audi-

tors would fail to act voluntarily on the proposals.

Private concerns about the recommendations of the Cadbury report - widely hailed by government and industry when it was published - also emerged at yesterday's conference.

Delegates heard that a survey of fund managers and auditors by Burson-Marsteller, the public relations company, found that a majority of both groups felt the recommendations did not go far enough.

The survey said most of the 22 leading fund managers and auditors interviewed had felt that members of the committee had been unwilling to produce a report which upset corporate directors. One fund manager was quoted as saying "There are some things they were not able to come out about as they would have liked."

Helicopter bids attract referral

TWO of the bids to take over British International Helicopters Ltd (BIHL), Mr Robert Maxwell's helicopter company now in administration, were yesterday referred to the Monopolies and Mergers Commission, writes Daniel Green.

Arthur Andersen, administrators of Maxwell's private companies, said the decision would "add to the uncertainty surrounding BIHL's future, and would have an adverse impact on the company's creditors." The MMC has until September 9 to make its ruling.

Aberdeen-based BIHL went into administration in December 1991. It employs 500 people and is mainly involved in ferrying passengers and cargo to offshore oil platforms.

The referred bids, by Bond Helicopters and Bristol Helicopters - both UK companies - would, if successful, reduce from three to two the number of competitors in the £200m a year North Sea helicopter services business. The value of the bids was not available.

Bank pulls out of MGN refinancing

By Raymond Snoddy

SENIOR executives of Mirror Group Newspapers (MGN) - part of the former Maxwell empire - have been told that the Bank of Scotland has decided not to go ahead with providing a £30m slice of a refinancing package.

The news has caused outrage among staff at the Glasgow-based Scottish Daily Record and Sunday Mail because the Bank of Scotland has been the group's bankers for nearly a century.

The Bank of Scotland is one of a consortium of banks negotiating a medium term financial package to provide MGN with greater stability while decisions over its ultimate ownership and future are taken. The package involves, it is believed, a facility of £250m for two years.

The package is particularly important for the Scottish Daily Record because new colour presses are already being stored in Glasgow but the com-

pany does not have the money to install them.

MGN have been told the reason for the Bank of Scotland's decision was "financial prudence".

The Bank of Scotland would only say last night: "The bank has not withdrawn from the consortium nor has it reduced the limits [of the Scottish Daily Record]."

National Westminster Bank, the senior consortium bank, has been realising the £30m among the other member banks and it is believed that most of it has been placed.

The refinancing of MGN is not thought to have been jeopardised as a result. The company is expected to go ahead with the publication of its accounts later this month to be followed soon after by a re-listing of its shares.

Earlier this week the Department of Trade and Industry appointed inspectors to investigate the circumstances surrounding last year's MGN flotation.

Britain in brief



Historians attack secrecy over Hess

British historians have criticised the government for withholding documents relating to the abortive Second World War peace mission of Rudolf Hess, Hitler's deputy, following the publication yesterday of government records.

The records show Hess addressed an apparent suicide note to his family in Germany a month after he crash landed in Scotland in May 1941. The letter, together with a similar message to Adolf Hitler, was written in June 1941 while Hess was being interrogated by UK government and intelligence officials.

The documents confirm Hess's near-derangement following the failure of his ill-starred attempt to persuade the British authorities to make peace with Hitler.

Mr John Costello, a former television producer who has pioneered research into Hess's story using Soviet and US archives, complained that the government was still withholding sensitive material about the peace mission.

Another historian, Mr Peter Padfield, said: "What is interesting is what is not there." He said he was "quite convinced" that details of the Hess plot against Hitler were contained in intelligence files separate from the UK Foreign Office files now being opened up to the public.

Accountancy firms merge

Stoy Hayward, the UK's 11th largest accountancy firm by fee income, is to merge with Finnie, the 20th largest firm and auditors to the Body Shop.

The new firm - to be called Stoy Hayward - will have 176 partners and directors, 1,300 professional staff and an annual fee income of more than £28m, making it the 10th largest firm under current rankings.

Mr Adrian Martin, managing partner at Stoy Hayward, stressed that the merger was agreed for strategic reasons and did not reflect any financial weaknesses in either firm.

Court winds up Batace

Batace, a company controlled by Mr Ghath Pharaon, a Saudi businessman named by the US Federal Reserve as a frontman for the collapsed Bank of Credit and Commerce International in the purchase of stakes in US banks, has been compulsorily wound-up by the High Court. The winding-up order was made on a petition presented by the Liquidators of BCCI claiming to be creditors of Batace for \$7,168,206.

Police service to be examined

The government's examination of Britain's police service is to be extended to include financial and structural issues.

Three weeks ago Mr Kenneth Clarke, home secretary, announced a review of police career structure and pay



issues. Now Mr Clarke has told the Association of Chief Police Officers conference in Eastbourne that the review - to be completed by next May - would go "beyond narrow adjustments to existing structure and pay arrangements" and examine officers' responsibilities, careers and performance.

Rover output falls sharply

Rover car output fell heavily in the first quarter of 1992, but the decline was largely compensated by higher production by Nissan as well as by small gains by Vauxhall and Ford.

Overall UK car output in the first three months of the year fell by 0.8 per cent to 343,318 from 346,163 in the corresponding period a year ago according to figures from the Society of Motor Manufacturers and Traders.

Rover car production fell by 14.4 per cent to 94,937, while output of the Land Rover division's Range Rover and Discovery vehicles declined by 19.2 per cent to 9,346.

In the first three months it slipped into fourth place in the UK new car sales league after being overtaken by the Peugeot group of France.

Warning on shoe industry

UK footwear companies have been warned that the survival of the industry in Britain is dependent on a continuing growth in exports.

Exports, measured in pairs, rose by 11 per cent, and, measured in value, rose by 15 per cent last year, according to the British Footwear Manufacturers Federation. "Such a strategy is nothing less than essential if the industry is to remain as over its reduced size," said the federation's annual report.

Students take state loans

Almost a third of students received a government loan last year to finance part of their living costs. Figures for the first year of the student loans scheme, published yesterday, show that 180,000 students received a loan, at an average value of £288. Total loan payments were £269.9m.

Geldof wins TV contract

The contract for Channel 4's breakfast television service has been awarded to Planet 24 of which Mr Bob Geldof, the philanthropist and former rock star, is a director, in a £10m 15-month deal. The programme will begin in September.



A groundsman at Twickenham Rugby Ground, west London, mows the pitch against a backdrop of the east stand which is being demolished to make way for a £20m replacement that should be ready for the England-South Africa match on November 14.

Photograph by Tony Andrews

Race commission warns of increase in extremism

By Alan Pike,
Social Affairs Correspondent

BRITAIN'S Commission for Racial Equality (CRE) yesterday criticised the rise of right-wing extremists in Europe and the US amid warnings of a "much more threatening climate" for race relations.

Mr Michael Day, chairman of Britain's Commission for Racial Equality (CRE), said: "The emergence of neo-fascists in parts of continental Europe, the racist posturing of some presidential aspirants in the United States and the horrific events in Yugoslavia alert us to the powerful forces which generate racial conflict."

Presenting the CRE's annual report, Mr Day said Britain's ethnic minority community could never feel totally secure when it witnessed racial oppression on racial elsewhere.

Racial minorities in Britain

Solicitors' firms in England and Wales are to be asked by the Law Society to adopt targets for the number of ethnic minority lawyers they employ.

Large firms with more than 50 fee earners - lawyers and legal executives - are to be asked to take 10 per cent of their trainees and five per cent of their other fee earners from ethnic minorities. Although the targets are not mandatory, the society plans to enforce them by issuing licences to all firms wishing to take trainees on the condition that they comply with equal opportunity targets.

Progress towards equality of opportunity for all in Britain was "too slow and too grudging," but the way in which institutions like the police, the churches, the law, health, education and housing were prepared to review practices and introduce fairer procedures was encouraging. There was general support for outlawing the most blatant and offensive expressions of racism, but objections were raised "the nearer we get to challenging the vested interests of those in privileged positions."

The commission was, said Mr Day, disappointed that an opportunity had been missed to use the Citizen's Charter to give an explicit lead on ethnic monitoring. He also expressed concern about the level of the commission's budget, saying it is "particularly galling that our resources continue to be so limited."

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BAe likely to cut jobs at missile plant

By David White,
Defence Correspondent

BRITISH AEROSPACE (BAe) is expected today to announce a further 700 redundancies in its Dynamics missile division.

Most of the redundancies - about 450 jobs - will be at Stevenage, Hertfordshire. The news comes only a week after BAe announced 640 job losses at its space systems facility.

The expected measure will

bring to almost 6,000 the number of job reductions announced by leading UK defence contractors since the start of the year.

It is likely to meet hostile reaction from trade unions after hopes for the Dynamics division's future were boosted by the award in March of a £57m Ministry of Defence contract for new air-to-air missiles.

Earlier, the division had already announced that it was

cutting 450 jobs, bringing its total workforce down to about 6,000. The reductions, largely among engineering employees, are part of a continuing effort by BAe to reduce its costs in an increasingly competitive guided-weapons business.

BAe warned earlier this year that 10,000 jobs would be shed in the group over two years after preliminary 1991 results showing a pre-tax loss of £81m.

Mr Tim Webb, national offi-

cer of the Manufacturing Science and Finance union, said the cuts would be "yet another blow to the reputation of British Aerospace as Britain's leading manufacturer."

Meanwhile, unions representing MoD civilian personnel yesterday pressed Mr Malcolm Rifkind, defence secretary, for a share of defence budget savings to be paid to staff affected by government cut-backs.

New recipes for cleanliness

The food industry is discovering ways to ensure its equipment stays spick and span, writes Andrew Baxter

Take a beer from your fridge on a sticky day this summer and the chances are that condensation will quickly form on the bottle. It is an effect that may be harmless in the home but causes serious problems for the brewers.

At the Stella Artois brewery in Leuven, the Belgian equivalent of Burton-on-Trent, they know all about condensation. Stella's light beers have to be stored at low temperatures for several weeks before bottling, and condensation quickly forms on storage vessels, pipework and cold wall surfaces when ambient air - particularly on humid summer days - infiltrates the buildings.

Condensation, combined with high humidity, provides ideal conditions for mould and bacteria to grow, and frequent cleaning simply introduces more water that exacerbates the problem. In 1978 Stella sought a solution through installing dehumidifiers, but these weren't up to the job, and also used a process that caused corrosion.

Now the Belgian brewer believes it has the problem licked with powerful dehumidifiers that recirculate the air after passing it through a desiccant rotor. The equipment, made by Swedish-owned Munters, removes excess moisture from the air and prevents condensation.

"There are several similar situations in the UK, but also a need to make companies aware of the possible solutions," says Tim O'Brien, UK managing director of Munters. "Across the whole of the food industry, they are only just starting to pick this up."

Hygiene is a sensitive issue in the food and drink industry. Few producers want to talk about a persistent problem or potential hazard until it is ironed out. Perfection is not attainable, as recent Salmonella and Listeria incidents have shown, but technology is making further improvements possible.

Health scares have forced food producers and their suppliers, whether of equipment or raw materials, to accept - sometimes reluctantly - that hygiene is higher up the public agenda for food than it

has been in the industry's own priorities, where over the past 20 years issues such as productivity and efficiency have held sway.

For food and drink equipment suppliers, this creates both an opportunity to develop new techniques where solving a hygiene problem is the major issue, but also a challenge to redesign equipment that, in hygiene terms, is now past its sell-by date.

Solving hygiene problems has long been important for the food industry, although primarily as a means to an end - greater productivity. More recently, equipment suppliers and customers have realised that combinations of mechanical equipment, control systems and packaging technologies can be used to create a marketing opportunity through overcoming a hygiene obstacle.

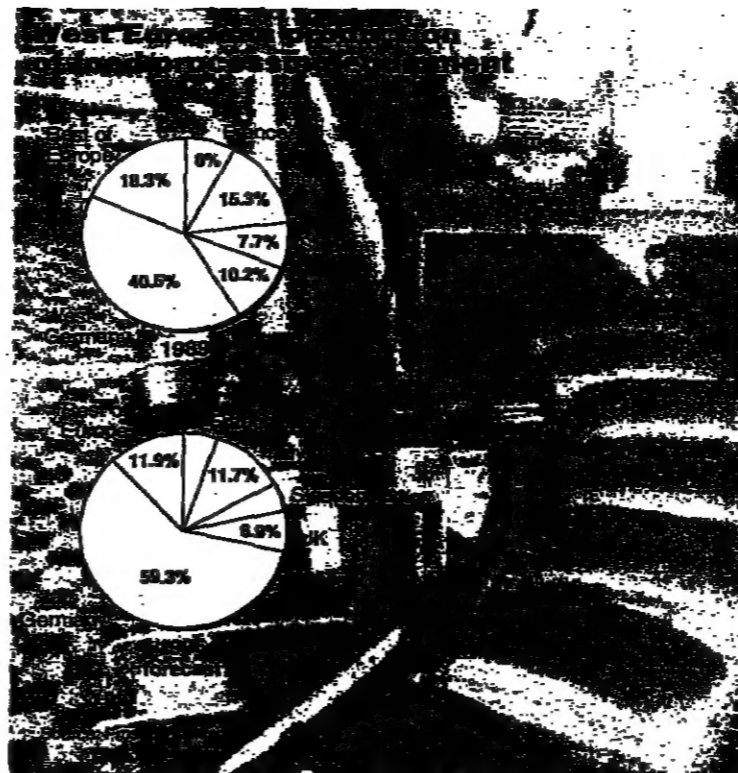
Marks & Spencer, for example, has developed a New Zealand chilled lamb business to replace chilled English lamb in the winter when eating quality becomes too variable. Apart from careful selection of the

carcasses, the business relies crucially on computerised systems to control temperatures on the 35-40 day voyage from New Zealand, says Martin van Zwamberg, M&S divisional director for foods.

However, it is the production processes between shipping of the raw materials and delivery of the finished product to the shops where hygiene is most important. But the challenges are less understandable to the layman and often more difficult for the industry to solve.

As food manufacturing equipment has become bigger and more complex, the processes used are increasingly akin to those of a chemical plant and less like a scaled-up version of a kitchen. The combination of nutrients, water and heat in a continuous production process creates a "fertile atmosphere" for bacteria, according to Terry Tamplin, marketing manager at APV Baker.

Over the past 30 years, in response to customers' needs to keep expensive capital equipment running longer, UK-based APV and the other big equipment suppliers



such as Sweden's Alfa-Laval have installed clean-in-place (CIP) systems.

Now, few large food producers would even look at equipment that cannot be cleaned in place, or where parts that do have to be removed for cleaning cannot be re-assembled quickly.

In this environment, hygiene problems occur when even

high-pressure CIP fails to work, often because of poor hygienic design of equipment.

The 1990 Richmond Report on the Microbiological Safety of Food quoted cases where poor design had caused food poisoning incidents. Even the fastidious M&S was hit by a Salmonella outbreak on vol-au-vents 10 years ago when chicken built up in a processing machine that incorporated CIP.

Incidents like that are prompting a big co-operative effort by customers and equipment suppliers to emphasise design for cleaning - without losing out on efficiency and productivity.

Nooks and crannies where food can collect are being designed out, says Tamplin, and stainless steel used increasingly for ease of cleaning. Valves - notoriously difficult to clean, says van Zwamberg - are being used only when absolutely necessary.

Increasingly, equipment is being totally redesigned, principally for hygiene reasons. At Hoyer, Alfa-Laval's ice-cream equipment subsidiary, the latest Straightline extrusion machine is designed with sloping surfaces, no overlaps where ice cream can collect, and a freezing tunnel built like a stainless steel tank with invisible welds.

The extruders have to be removed for cleaning but can be re-assembled quickly, says John Weaver, marketing manager. "The aim is to make it as easy as possible, so that the operators don't cut corners."

Survival of the fittest traders

By Alan Cane

Dealers and managers in financial markets are calling on a host of novel and sophisticated mathematical methods in their never-ending search for ways to improve trading performance.

The new techniques have emerged from research into artificial intelligence, the way in which they work is reminiscent not only of the mechanisms of the mind but of natural inheritance.

They include such esoteric developments as neural networks, rule induction and genetic algorithms. These are being applied to a range of market analyses including stock market prediction, currency rate prediction, portfolio management and credit evaluation.

According to Philip Treleaven and Susan Gonnatillake* of the Department of Computer Science at University College, London, the new methods are already showing an edge over traditional statistical methods. A technique based on chaos theory, for example, was found to be up to 50 times more effective than traditional modelling techniques at forecasting market movements such as the Dow Jones average or the price of IBM stock. They suggest that the next generation of intelligent financial technologies will involve a combination of two or more methods to create hybrid systems - one to analyse and predict market movements, for example, and one to execute trades according to predetermined rules.

Heavily, the growth of intelligent financial technologies will mean more automation in an area where human judgment and skill has been considered paramount. "It may be possible that these technologies will lead to a situation where future investment houses have large numbers of extremely adaptive, intelligent machine traders to perform many of the more mundane trading tasks," warn the authors.

It is easy to get carried away, however, with the idea of the world's financial markets controlled by armies of robot traders. The only

things the new techniques really do is to spot trends and recognise patterns - but rather more efficiently than the conventional mathematical methods of statistical clustering and regression analysis which have been the mainstay to date.

These techniques are based on approaches which seem positively bizarre to those outside the rarefied atmosphere of advanced mathematics. Genetic algorithms, for example, have their origin in a species of Darwinism - a sort of survival of the fittest theory. They have been successfully used to solve problems in imaging, large-scale electronic circuit layout, gas pipeline control and job shop scheduling.

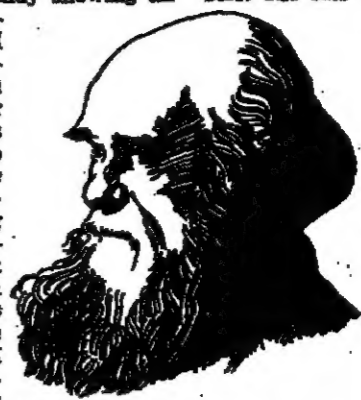
The starting point is a pool of possible solutions to the problem, randomly chosen. These solutions are then coded in a form a computer can understand - as a set of binary digits or conventional numbers. The sets of digits are analogous to chromosomes, and the digits analogous to individual genes. A program simulating evolution in action - genetic combination, mutation and so on - can be applied to the "chromosomes".

The aim is to produce a "better" solution, just as Darwinian evolution is reckoned to produce species better fitted to survive. Because there is no "natural selection" of an improved solution from the genetic algorithm, at each turn of the cycle, the products must be evaluated to test how good they are at solving the problem.

It seems hardly credible but, in practice, it seems to work. In an artificial stock market at the Santa Fe Institute, robot traders using genetic algorithm techniques generated rules about when to buy - such as "when the price earnings multiple is low" - and price trend continuations. This after about a day's run on a workstation.

Human traders need not fear for their jobs just yet, but they should be aware that survival of the fittest does not only apply to nature.

*Parallel Problem Solving from Nature, Statistical Office of the European Communities, 1992



Dealing with Darwin



IT MAY not look like a chicken, or even taste like a chicken, but in one crucial respect - its thermal characteristics - it acts like a chicken.

Nestling discreetly among the chilled foods in Marks & Spencer's in-store refrigerators is a new breed of poultry that will never reach the nation's dinner plates but is a classic example of how food hygiene - and productivity demands - are driving equipment development.

The so-called Plastic Chicken, developed by M&S in partnership with Elm, a Scottish-based electronics company, was designed partly with the new UK food safety regulations in mind, which will require chilled food to be kept at 5 deg C. But M&S

Cluck, cluck, cluck

increasingly wants to hold chilled food at as low a temperature as possible without freezing it, to incorporate an ever-wider range of fresh food into its shelves. In the past, says Nick Holloway, M&S senior food technologist, monitoring fridge temperatures involved time-consuming reading of thermometers placed in various positions on the refrigerator shelves. These, however, measure the temperature of the air rather than that of the product. M&S wanted to go direct to the product temperature for greater accuracy.

The solution was the Plastic Chicken, which incorporates a partially insulated and damped temperature probe replicating the temperature characteristics of a chicken or, with adjustments, a range of other chilled foods. The battery-operated chicken takes a temperature reading every minute, then puts an

average temperature into its memory every 15 minutes up to a maximum of 10 days, or a maximum of six months if less frequent readings are taken. If the temperature exceeds preset limits, the Chicken alarm lights discreetly - no clucking. Data from the first generation Plastic Chickens, which will be in all 280 M&S stores by the end of July, are transferred by infra-red beam to a hand-held reader unit held up to three feet away.

But M&S has now hit on the idea of putting mini-transmitters in each chicken linked to a receiving station in the store's food office, further increasing the cost savings on collecting temperature data and improving vigilance. The radio system can be retrofitted to the original Plastic Chickens, says Holloway, and will probably be introduced next year. It gives "battery hens" a whole new meaning.

CONTRACTS & TENDERS

Treuhandanstalt
(The government agency privatising eastern Germany property)

Tender for the sale of

PAPERPRODUCTION

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Name, location (in brackets: main product, number of employees, site in sqm)

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(Wood-free graphic and technical
paper / 175 / 91.000)

(PA-2) Plant
Papierfabrik Tannroda
of Dresden Papier AG
O-5301 Tannroda / Thüringen
(Paper for corrugated cardboard and
wrapping material made of 100 %
wastepaper / 78 / 144.000)

(PA-3) Plant
Kartonfabrik Porstendorf
of Dresden Papier AG
O-6901 Porstendorf / Thüringen
(Grey-, duplex- and triplex
cardboard on wastepaper basis /
54 / 21.000)

(PA-4) Plant Pappen- und
Kartonagenfabrik Glashütte
of Dresden Papier AG
O-8245 Glashütte / Sachsen
(Wrapping material made of
cardboard from recycle- raw
material / 73 / 41.470)

(PA-5) Plant
Papierfabrik Antonsthal
of Dresden Papier AG
O-9431 Antonsthal / Sachsen
(Recycled paper made of 100 %
wastepaper for graphic purposes
as well as for offset- and printing
paper / 160 / 200.000)

(PA-6) Plant
Papierfabrik Technitz
(subsidiary of
Papierfabrik Hainsberg GmbH
of Dresden Papier AG)
O-7301 Technitz / Sachsen
(Single-sided smoothed recycled
paper made of 100 % wastepaper /
60 / 75.000)

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 - Bids for a company in the legal form of a limited liability company (GmbH) must be for the total share capital of a company.
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- In deciding among the bids, the Treuhandanstalt will take into consideration, among other things, the bid price, the business plan submitted, promises to maintain or create jobs, and pledges to invest, each of which will be considered part of the bid.
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FT LAW REPORTS

Bank should explain documents

BARCLAYS BANK PLC v O'BRIEN
Court of Appeal
(Lord Justice Purches,
Lord Justice Butler-Sloss
and Lord Justice Scott)
May 22, 1992

A BANK seeking to procure a wife's signature as her husband's surety must take reasonable steps to try and ensure that she understands the effect of signing, and if it fails to take such steps it cannot enforce the security against her on the grounds only that the husband, in deceiving her into signing, was not acting as its agent.

The Court of Appeal so held when allowing an appeal by Mrs N.E. O'Brien from a decision of Judge Marder QC that the plaintiff, Barclays Bank plc, was entitled to enforce a mortgage document signed by her to secure her husband's guarantee.

LORD JUSTICE SCOTT said Mr and Mrs O'Brien were married in 1983. Their matrimonial home was in Slough. They purchased it with a £25,000 mortgage.

Mr O'Brien had an interest in a company called Heathrow Fabrications and was its auditor. The manager of the Slough branch of Barclays Bank was Mr Roger Tucker. In February 1987 he was transferred to Woolwich. The company's account was transferred to Woolwich to be supervised by Mr Tucker.

The company had an overdraft which, in April 1987, was agreed at £50,000. By June 15 it had risen to over £98,000. Cheques were being bounced.

On June 22 it was agreed between Mr Tucker and Mr O'Brien that the company would be allowed a facility of £135,000 reducing to £120,000 after three weeks, guaranteed by Mr O'Brien. His liability was to be secured by a second charge over the house.

Mr Tucker gave instructions for the necessary security documents to be prepared. He sent them to the Burnham branch (a sub-branch of Slough) to await signature by Mr and Mrs O'Brien.

He instructed the sub-branch to advise Mr and Mrs O'Brien that the maximum facilities would be £135,000, to ensure

that they were fully aware of the nature of the documentation, and to advise that if in doubt they should contact their solicitors before signing. Mr O'Brien signed on July 1. On July 2 he brought his wife to the sub-branch. The clerk failed to follow Mr Tucker's instructions. Mrs O'Brien signed. The clerk witnessed her signature. No explanation of the documents or their effect was given. She did not read the documents before signing. No one recommended that she should obtain legal advice.

By October the indebtedness was over £154,000 and in November formal demand was served on Mr O'Brien under the guarantee.

Mr O'Brien's liability was established by Judge Marder's judgment in the court below. He did not appeal.

Mrs O'Brien did not fit the now rather outmoded pattern of down-trodden wife subservient to her husband.

The judge said Mr O'Brien falsely represented to her that the charge was limited to secure £50,000 and would be released in a short time.

Her evidence was that she was reluctant to put the family home at risk, but her husband insisted that she must sign. He told her it was only for three weeks. He became extremely emotional and said that if she did not sign the whole company would go bankrupt and their son would lose his home as well. Mrs O'Brien was concerned for her son and felt that, if it was only for three weeks and would do the trick, she would sign. She went to the bank where the documents were laid out for signing. She did not read them. They had been folded back to show the places to be signed.

The principal reason the judge found in favour of the bank against Mrs O'Brien was that there was no evidence that in deceiving his wife Mr O'Brien was acting on behalf of the bank.

For historical reasons equity in the past treated married women differently and more tenderly than other third parties who provided security for the debts of others.

The authorities preceding *Axon Finance v Bridger* (1985) 2 All ER 381 did not depend on endowing the husband with the status of creditor's agent. Married women who provided

security for their husbands' debts were treated as a special protected class of surety.

Axon added to the protected class a case in which vulnerable elderly parents had agreed to provide security for the debts of their adult son.

Post-*Axon* cases were not easy to reconcile with one another. In neither *Kings North Trust* (1986) 1 WLR 119 nor *Barclays Bank v Kennedy* (FT, November 15, 1988) was there any explicit finding that the debtor was acting as agent for the creditor.

In cases falling within the protected class, security given by the surety would in certain circumstances be unenforceable notwithstanding that the creditor might have no knowledge of and not have been responsible for the vitiating feature of the transaction. That was supported by *Turnbull v Duval* (1982) AC 282; *Chaplin v Brammall* (1989) 1 KB 233; *Axon Finance v Kings North Trust* and *Barclays Bank v Kennedy*.

In cases falling within the protected class equity would hold the security given by the surety to be unenforceable by the creditor if:

(1) the relationship between the debtor and the surety and the consequent likelihood of influence and reliance was known to the creditor;

(2) the surety's consent to the transaction was procured by undue influence or material misrepresentation on the debtor's part, and the surety lacked adequate understanding of the nature and effect of the transaction;

(3) the creditor failed to take reasonable steps to try and ensure that the surety entered into the transaction with adequate understanding of its nature and effect and that the surety's consent was true and informed.

Those requirements emerged from the authorities.

The position of married women today was very different from what it was when the equitable principles underlying *Turnbull v Duval* and *Chaplin v Brammall* were being formulated. It was arguable that married women no longer needed protection. Many women did not.

But in the culturally and ethnically mixed community in which we now lived, the degree of emancipation for

women was uneven.

Reliance by a wife on her husband to make the business decisions for the family was the justification for the tenderness of equity towards married women. That justification was still present. The old authorities pre-*Axon Finance v Bridger* were still good law.

Each case within the protected class must depend on its own facts.

But a clear written recommendation to the surety to take independent advice before signing would be advisable in most cases.

If a creditor had taken reasonable steps, such as advising the surety to take independent advice or offering a fair explanation of the document before the surety signed it, there was no reason why equity should intervene.

The judge rightly declined to find Mr O'Brien had been appointed the bank's agent. Mr Tucker's instructions to the sub-branch made it clear that the bank was retaining the responsibility of explaining to Mrs O'Brien the effect and nature of the documents she was to sign.

The question was whether the bank took reasonable steps to try and ensure that she had an adequate comprehension of the effect of the charge.

It did not.

If Mr Tucker's instructions to the sub-branch had been carried out the answer would have been otherwise.

Mr O'Brien was not the bank's agent, but the equitable principles established in the authorities required that creditors who took from married women security for their husbands' debts should take reasonable steps to see that they understood the transactions they were entering into.

In view of Mrs O'Brien's misunderstanding of the transaction, it was not enforceable against her, save to the extent of £50,000.

The appeal was allowed. Lord Justice Purches gave a concurring judgment. For Mrs O'Brien: *Simon Buckhaven* (Slopes & Burton, Daventry).

For the bank: *Philip Gooden* (Barry I Alkin & Co).

Rachel Davies

Barrister

PEOPLE

Amec's house of cards

Malcolm Howe, architect of Amec's rapid expansion into housebuilding and the company's biggest individual shareholder, has resigned as chairman of the company's loss-making housing and property business.

The departure of 53-year-old Howe comes a couple of months after Amec itself reported a loss as a result of a need to take a £60m exceptional provision against its land and property values. In common with many construction companies Amec, had increased its exposure to property and housebuilding just at the wrong time. Analysts suggested that his departure confirms that Amec intends to withdraw from the housing business.

Howe, a quantity surveyor, joined Amec in 1986 when the group joined forces with his housebuilding company to

form Fairclough Homes. In 1989 he was appointed to the main board following the "remarkably successful development" of Fairclough Homes. In addition to being rewarded with a boardroom seat, Howe also emerged as a major shareholder because Amec issued paper to buy his company. At one stage he owned 6.85m Amec shares. However, he has been a steady seller of Amec stock and according to the last annual report his stake had fallen to 2m.

John Early, Amec's 46-year-old finance director, is taking over Howe's responsibilities and will continue to be responsible for directing Amec's strategic development throughout Europe and for overseeing the rationalisation of Amec's US activities. Simon Bates, Early's 39-year-old deputy, is taking over from Early as group finance director.

Back to business

Howell Harris Hughes, the last of the outgoing members of the Prime Minister's Downing Street policy unit, has resurfaced as deputy chairman designate of Cantrade Investment Management.

Hughes, a former partner of Phillips & Drew, was recruited to the policy unit at the start of 1989 by Professor (now Lord) Brian Griffiths. He was involved primarily on Department of Trade and Industry issues and his responsibilities have now been passed on to David Poole, the James Capel director who joined the policy unit last month.

By joining Cantrade Investment Management, the newly-formed investment arm of Switzerland's Bank Cantrade, 48-year-old Hughes is returning to his old stamping ground of non-pension fund investment management. He joined P & D in 1987 and rose to head the part of the business which specialised in non-pension fund business. P & D is now part of the Union Bank of Switzerland empire as is Bank Cantrade. Cantrade Investment Management, formed around the basis of the old C.S. Investment Management, has £1.5bn of funds under management and services a different part of the market from the much bigger Phillips & Drew Fund Management.

Hughes' appointment means that all the old members of the policy unit have now found new jobs. Jonathan Hill, who

worked for Jacob Rothschild and Hamish Hamilton before joining the policy unit, replaced Judith Chaplin as the Prime Minister's political secretary in March. Civil servant John Mills has been appointed the new director of consumer affairs at the Office of Fair Trading, and Caroline Sinclair, a former Treasury official, has moved to the Home Office.



■ Jeremy Legie (above), formerly md of BAA Hotels, is chief executive of the HOTEL CATERING AND INSTITUTIONAL MANAGEMENT ASSOCIATION.

■ Air Chief Marshal Sir David Parry-Evans will be the new chief commander of ST JOHN AMBULANCE.

■ Robert Drummond, chief executive of Grosvenor Venture Managers, becomes chairman of the BRITISH VENTURE CAPITAL ASSOCIATION.

■ Angela Browning MP is parliamentary adviser to the INSTITUTE OF SALES & MARKETING MANAGEMENT.

Racal realigns

Sir Ernest Harrison, chairman and chief executive of Racal Electronics for 26 years, will relinquish the chief executive spot to his right-hand man David Elsberry from the beginning of August.

While Elsberry, 56, was obviously the heir apparent, analysts yesterday expressed a degree of surprise that Sir Ernest had lined himself up as chairman of Chubb, the security locks and alarms business due to be demerged in October.

The precise timing of the split chairman and chief executive role at Racal may thus have been determined by Sir Ernest's appreciation he could not inhabit all three positions - with the chairmanship of Vodafone, now spun off from Racal, into the bargain.

Elsberry, who joined Racal in 1956, has been chief operating officer since 1989, and deputy chief executive since 1993. His task in the last three years has been to restructure the non-Vodafone side of the business.

Sir Ernest, 66, yesterday also named the two non-executive directors he is bringing onto the Chubb board. One is Sir Colin Cornes, chairman of Redland and the Nationwide building society and a director of the Bank of England. Sir Colin knows Chubb already, having been a non-executive director of Chubb & Sons for

ten years until the Racal purchase in 1984.

Meanwhile, the other non-executive appointment, Michael Blackburn, who was until last April chairman of Toulme Ross & Co., has obviously forgiven the chairman his historic role in the midst of the recent Williams Holdings battle for Racal. Sir Ernest, a qualified accountant himself, was heard to make disparaging remarks about the profession as he laid into the Williams team - a bunch of "accountants" who only knew how to slash costs.

■ David Downes becomes deputy chief executive of HUNTER SAPHIR in addition to his responsibilities as group finance director. Peter Austin becomes a director. Ken Payne is company secretary.

■ Christopher Rouse has been appointed development director of FORTE HOTELS. Mike Stevens becomes a director of FORTE POSTHOUSE.

■ Valerie Corrigan has been elected shareholder director of NPG.

■ Alastair Channing, deputy md of operating subsidiary Associated British Ports, and James Shaw, md of property subsidiary Grosvenor Square Properties, are appointed to the board of ASSOCIATED BRITISH PORTS HOLDINGS.

Royal changes the guard

Management changes continue apace at Royal Insurance, as the composite insurer claws its way back to profitability under chief executive Richard Gamble.

Peter Sharman is the latest to move upwards as part of a rejigging of senior posts at Royal UK, which sees the departure of managing director Geoff Prince.

Sharman, a 48-year-old Lancastrian, has been with Royal since 1961. One of the company's "troubleshooters", he has headed up problem-prone subsidiaries in Spain and Australasia. He was called back from Australia last August to become Prince's deputy.

Prince, 61 and another Royal stalwart, had only been managing director for just over two years ago. He will now pursue a new career outside insur-

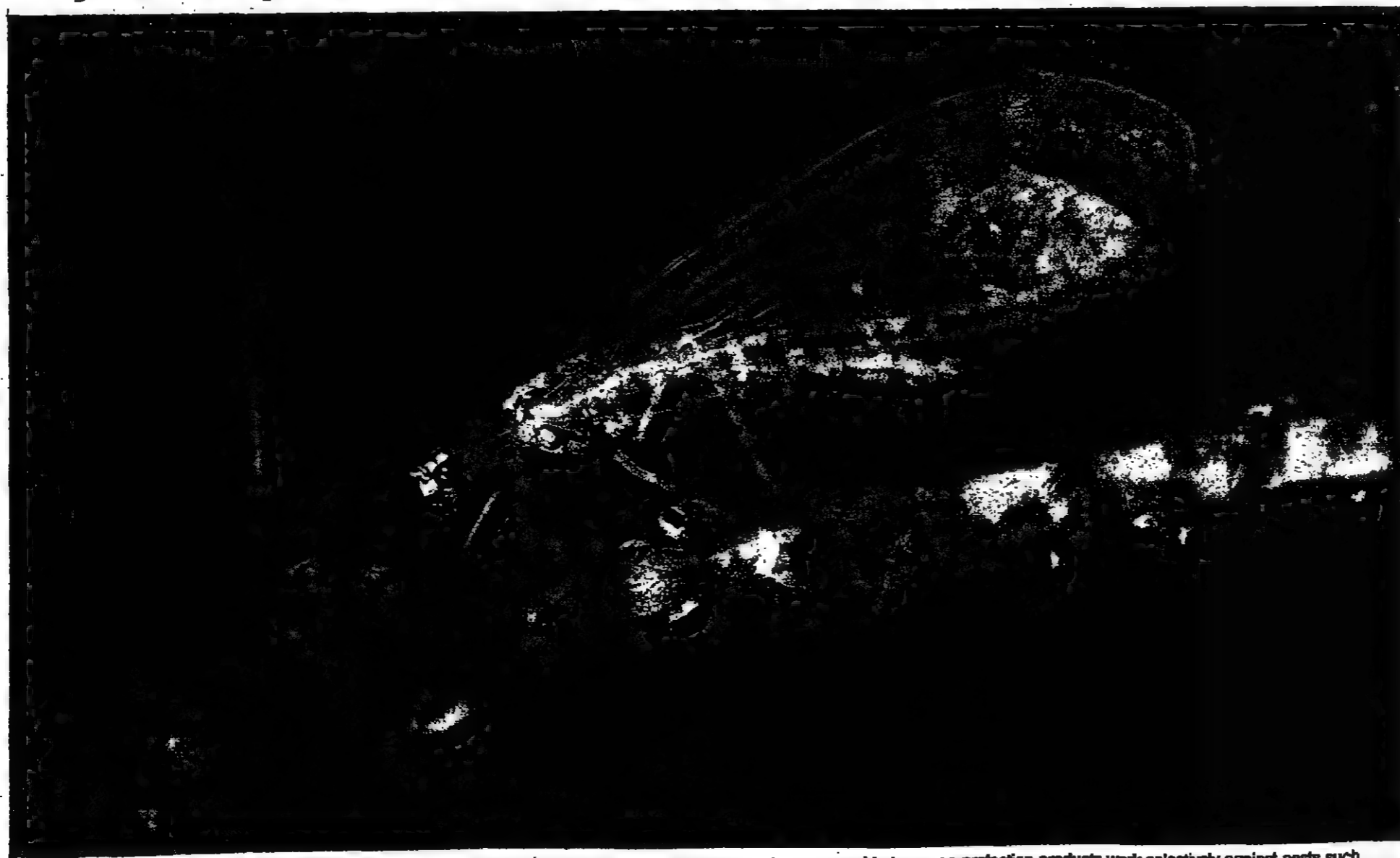
ance, leaving as the company's UK underwriting results show the first signs of improvement after two years of heavy losses.

Meanwhile, Roy Elms, the underwriting director appointed late last year, sees his responsibilities broadened. He becomes deputy chairman of both Royal UK and Royal Insurance (Global), the subsidiary which underwrites multinational and London market business.

Royal's chairman, Sir John Cuckney, has been appointed chairman of Royal Insurance (Global).

Separately, at Royal Life Estates, James Chapman has been appointed financial services director. Philip Raw takes over as professional services director and Bill Willett becomes human resources and general services director.

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MANAGEMENT: MARKETING AND ADVERTISING

Alice Rawsthorn explains why Europe's luxury goods makers are having a tough time

Japan loses its yen for Paris

There was a time in the late 1980s when Japanese tourists were buying so many quilted leather bags at the Chanel shop on Rue Cambon in Paris that Chanel was forced to "ration" them to three per person. Unabashed, the Japanese lurked outside, bribing passers-by to buy more bags for them.

Chanel is not the only European company to have benefited from the Japanese lust for western luxury goods. In the 1980s, Japan emerged as the fastest growing market for European fashion, perfume and cosmetics, thanks to the apparently insatiable appetite of Japanese consumers for Hermes scarves, Louis Vuitton luggage and Gianni Versace clothes.

Japan's recent economic problems - tumbling corporate profits, plunging share prices and the precarious property market - present a depressing scenario for Europe's fashion and beauty groups. The economic squeeze has already affected their sales in Japan itself and to Japanese tourists in other countries. The Europeans are now anxiously trying to assess the long-term impact on one of their most important markets.

The catalysts for Japan's emergence as an important source of sales for European fashion and beauty brands were economic growth and the increasingly cosmopolitan attitude of Japanese consumers who were travelling more widely and becoming more receptive to western trends.

These influences were accentuated by the frenetic growth of Japan's property and stock markets. This created a new group of *nouveaux riches* consumers, happy to spend their new-found profits on Cartier jewels and Gucci shoes. The property boom also priced the established middle classes out of the housing market. Young couples were forced to post-

pone purchasing their own homes, leaving them with more to spend on themselves.

Clarins, the French skincare company, now sells more each year from a single counter at the Isetan department store in the Shinjuku area of Tokyo than in smaller European countries. Paul Smith, the London menswear designer, depends on Japan for nearly two-thirds of his turnover.

LVMH, the French luxury goods group behind Louis Vuit-



ton, makes more than a quarter of its sales in Japan. And Japanese tourists account for a fifth of the sales of some products, such as perfume, at the Printemps department store in Paris. "Japan is incredibly important in sales terms," says Susannah Hardy, luxury goods analyst at Baccot Allain Warburg in Paris. "It is even more important in terms of profits because the margins on products sold there are so high."

Times have changed. The boom in the property and stock markets faded out two years ago. The first products to suffer were the most expensive - the impressionist paintings and opulent jewels. Cartier,

one of the most prestigious Paris jewellers, saw its Japanese sales slip by 12 per cent last year.

Until recently, more mundane luxuries, French perfumes and Italian designer clothes, were unaffected. But the recent run of Japan's economic problems has depressed consumer confidence. Sales in department stores, the main outlets for European fashion and beauty products, fell by 2 per cent in April compared with the same month last year. The Japanese have also cut back on international travel, thereby reducing "souvenir" sales to tourists.

"It is too soon to say what will happen," says Philippe Vardon, president of the Japanese subsidiary of L'Oréal, the French cosmetics group. "So far, all we have seen is a slowdown in the extraordinary rate of growth, experienced in the late 1980s. Remember, in Japan last year, our Lancôme brand grew by 20 per cent."

Serge Rosinier, chief executive of Clarins, agrees. Clarins' Japanese sales rose by 20 per cent in the first quarter of this year, compared with the 20 per cent Rosinier would have expected had the economy been healthier.

So far, the slowdown has not been too severe. Moreover, the strength of the yen in the first quarter has helped to offset any reduction in growth. However, the Japanese slowdown comes at a time when European fashion and beauty groups are already under pressure in other markets, notably the US.

There is also concern that the situation in Japan will deteriorate. The worst scenario would be a repetition of 1974-5 when the economy sank into recession, savings ratios rose and consumer spending collapsed. "In the past, the Japanese have responded to recession by saving more and spending less," says Claude



The days when Chanel had to ration its bags are now over

Meyer, chief economist at Bank of Tokyo in Paris. "We just don't know yet whether that will happen again this time."

These problems are aggravated by the changes in Japanese consumption patterns. Even before the economic squeeze, the Japanese were becoming more discerning in their choice of western goods. The old era, when wealthy consumers seemed willing to buy just about anything with a glibly European label, has ended.

"The Japanese are now more mature, discriminating consumers," says Peter Wallis, a specialist in luxury goods at SRU, the London-based management consultancy. "They have travelled more widely and are more knowledgeable about what they are buying. They want a wider choice and they want quality."

Louis Vuitton's experience bears this out. It began in Japan by selling its signature luggage with "LV" initials stamped all over the leather. Its range has now widened and the fastest-growing line in Japan is the more discreet *cadre* collection. "The Japanese are looking for quality and

price," says Emmanuel Prat, president of LVMH in Japan. "Image is not enough any more."

In theory, this may make it more difficult for European companies to sell to Japan. Wallis suspects it will certainly make life more difficult for less prestigious brands which may be squeezed out of the market.

Meanwhile the established players are waiting to see whether the Japanese economy worsens. Their problem is that there is little they can do to mitigate the situation. Most accept that Japan is a complex market, demanding long-term commitment. They are reluctant to jeopardise their investment in research and distribution by adopting the conventional, counter-recessionary tactics - price-cutting, accelerating product launches or reducing promotional budgets - they might employ in other countries.

"We are talking about a very, very important market," says Rosinier. "We cannot run the risk of damaging our position by adopting short-term strategies. Whatever happens, we will sit it out because we are in Japan for the long-term."

Putting customers in the picture

Paul Taylor says Kodak is projecting a new image

Kodak has the kind of marketing problem most companies would envy - a brand name that is so well known that it overshadows all of its products.

When people hear the Kodak name, they think of photography, as they have done for more than a century. Kodak has one of the strongest brand names in the world along with Coca-Cola and Sony. That is great when Kodak is selling camera film, but not so good when it wants to be taken seriously as a supplier of high-tech office equipment.

Kodak is up against competitors like Xerox, with a brand name synonymous with photocopiers, and Canon, the Japanese group. Among "business decision makers", only one in five associates Kodak with photocopying while three out of four link the Rank Xerox name to office copying equipment.

Similar figures emerge for Kodak's other office equipment products, which range from digital cameras and document scanners to optical disk storage systems and high volume colour copier-duplicators.

Kodak's commercial customers consistently give it's products - most of which have high price tags - good marks for reliability and service, but the problem is that existing customers are few in number.

Kodak's executives acknowledge the brand image problem. The company's traditional photographic market is under attack from other competitors like Japan's Fuji Film, making the move into office equipment all the more important.

Mike Mansell, head of Kodak Office Imaging in the UK, says that although most business people have personal experience of Kodak's photographic products, those who influence decisions "do not really associate Kodak with the business environment".

Mansell believes that some of Kodak's commercial advertising, like last year's campaign featuring disposable cameras, "may be seen as relatively 'flippant' by business customers. In the past, Kodak has tried

"umbrella" advertising to emphasise the broad range of its businesses and overcome this commercial credibility gap. However, the group recognises that it faces a marketing challenge and not just an advertising problem; a radical response was needed.

First, Kodak has redefined its core business around the "imaging" banner - a concept that links traditional photography and the digital technologies which dominate the office equipment market. By doing this, Kodak hopes its brand name will become linked to the imaging expertise it employs in scanners, optical disks and printers, and not just in consumer photography.

As a first step, Mansell says that Kodak must change its internal image, "the one we have of ourselves," and project the new image consistently.

Second, the group structure has been reorganised into three divisions - imaging, which includes both photographic products and business equipment, chemicals and health. One aim has been to shorten lines of communication, ensuring that functions such as research and development, marketing and customer service are better co-ordinated.

The reorganisation is also meant to simplify the management of customer accounts

and encourage sales representatives to listen more closely to customers' needs.

The formation of Kodak Office Imaging, for example, brought together businesses which previously operated as distinct units, sometimes even in competition with each other. Now customer databases, long acknowledged as one of the most powerful marketing tools, have been merged and only one Kodak sales rep will call on customers in future instead of two. Mansell says the new structure has already resulted in "some enormous new (sales) opportunities", although he adds that it will take time to change customer perceptions.

Time is not on Kodak's side. The company is under pressure to sort out its marketing quickly in order to halt a succession of poor results including a 19 per cent drop in 1992 first quarter net earnings.

The success of this latest reorganisation, the fifth since 1983, and Kodak's attempts to develop its commercial brand image, will be critical to its future. Mansell says Kodak will not be "throwing money at advertising". Instead it is attempting to deal with the technical problems its customers are facing. "It is going to take a great deal of effort and commitment on our part, but if we don't do it, we will be losing a great opportunity."

WALES

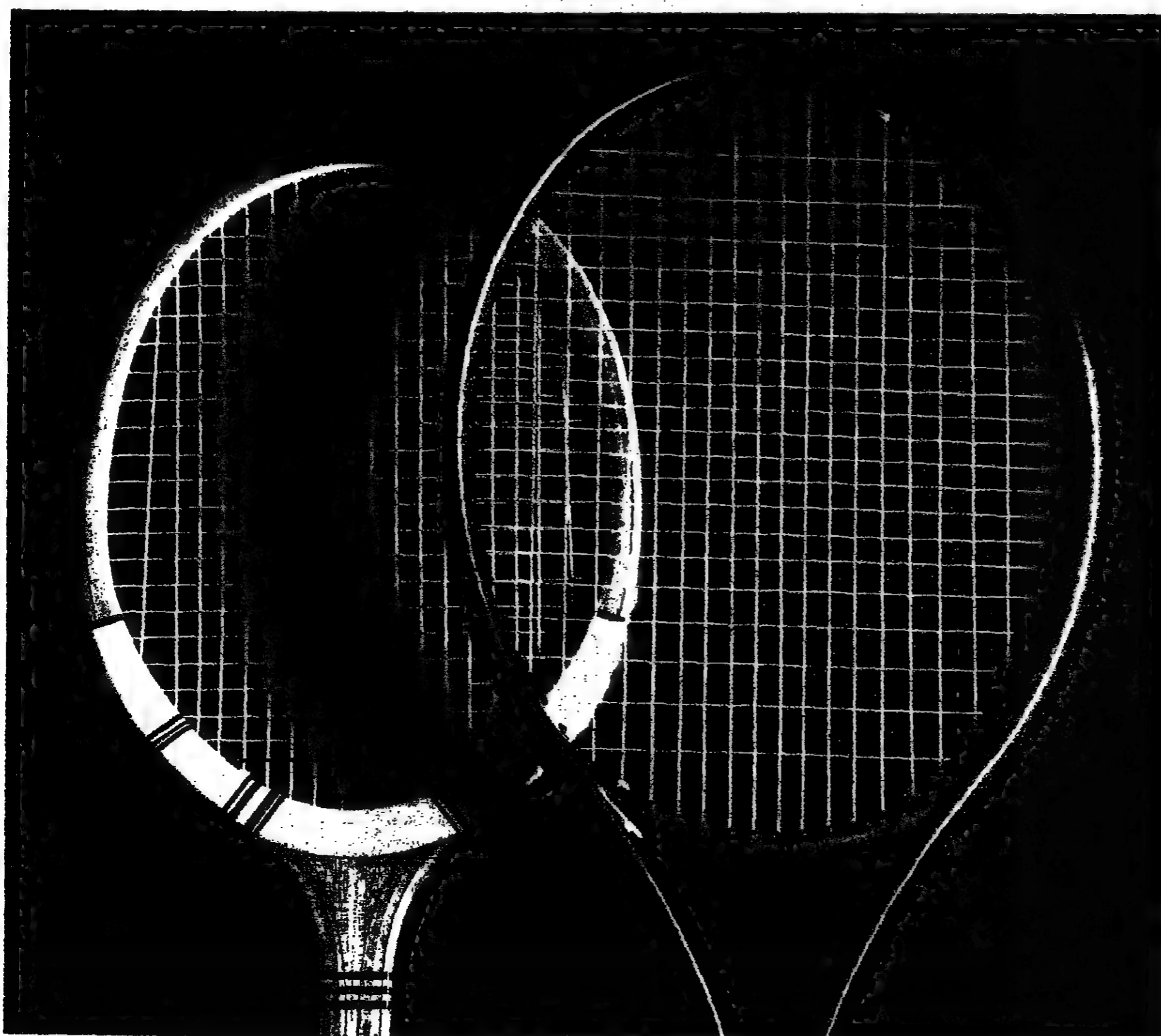
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FT SURVEYS



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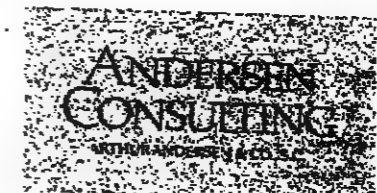
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Thursday June 11 1992

Doubts about Mr Delors

THE WEEK that has passed since the narrow rejection of the Maastricht Treaty by the Danish people has generated far more heat than light. This was inevitable. But light there has been, nonetheless. It seems clear, first, that the European Community cannot make progress without ratifying something not too different from the Maastricht Treaty; second, that some modifications to, or watered-down version of, that treaty may be needed; and third, that securing the necessary ratification will be difficult.

In so delicate a situation, many might wish for a cessation of normal business, while the EC grapples with its internal crisis. The EC has no such luxury. Two pieces of business, in particular, are so interlinked with hopes of ratification that they must be confronted head on. These are the future, respectively, of the EC budget and of Mr Jacques Delors.

Mr Delors has been the principal protagonist of "more Europe" since his appointment in 1989. A far-sighted, yet practical visionary, nobody, he devoted his life to his duty and his courage. But he has made enemies, partly because of his zeal for the cause, but also because of the way he has lectured ministers and heads of government as if they were children. He has lost none of his outspokenness. Yesterday in his speech to the European Parliament he chided the finance ministers of the richer EC nations for their failure to accept the fiscal implications of the Maastricht commitment. "There cannot be political union," he opined, "if it is not founded on a bloc which is economically and socially unified and coherent."

Debatable view

The economics of this view are debatable. An economic and monetary union can be combined with huge discrepancies in standards of living, provided differences in productivity are reflected in wages. But the politics are rather different. Poorer countries on the periphery of Europe insist that a political union implies a commitment to narrowing of income differences. They also insist that the pain of inflationary convergence and lower fiscal deficits needs to be eased if their still fragile politics are to survive the strain. They are quite probably right. It

is, in any case, difficult to accept that the budget increase Mr Delors is proposing, from a ceiling of 1.2 per cent of the EC's gross national product to one of 1.37 per cent, can be a serious obstacle. Having swallowed the camel of economic and monetary union, the finance ministers are straining at gnats.

Flood of directives

As so often before, Mr Delors is doing little more than pointing out the logical consequences of the governments' own purposes. The same applies, as he noted, to the flood of directives, most of which have been necessitated by the single market programme. Even where the EC has most irritated particular member states - over fiscal harmonisation, for example, or the social charter - it has done so only as the mouthpiece for other governments.

Even if Mr Delors has done little more than try to put the agreed goal of European union into practice, his reappointment for a further two-year term is not necessarily wise. The problem now facing the EC is how to secure ratification of a treaty that the Danes have already rejected. Failure to secure a treaty at all would be disastrous for the EC's credibility. But reopening the treaty would take a great deal of time and might fail altogether.

The most plausible strategy for getting over the present quagmire rests on making the notion of "subsidiarity" more credible. The British are not alone in objecting to the way the Commission probes into the "nooks and crannies" of national life. German officials are saying the same thing, partly to bring the Danes back into the fold.

Mr Delors speaks the same language. He told the Parliament that he wants to make the EC more open and accountable, to secure extension of respect for national diversity and to clear up the debate about sovereignty. This is, indeed, the right way forward. The question is whether Mr Delors, a man inescapably, however unfairly, identified with the enlargement of Brussels, can convince the parliaments and peoples of Europe of this apparently new direction. What Mr Delors says is, as always, worth listening to. The question governments must ask is for how long he can remain the best person in the EC to say them.

Collor comes down to earth

WHEN the dignitaries leave Rio de Janeiro this weekend after their deliberations on saving the earth, their host should return to more mundane matters of state: persuading a recalcitrant Congress to move on economic reform.

President Fernando Collor's economic programme hangs in the balance. Success on a variety of fronts is vital, the most significant being the passage into law of a comprehensive tax reform proposal, which is vital for long-term stability in government finances.

Fiscal consolidation is necessary to tame inflation, now running at around 30 per cent a month. Without that, the conditions for a resumption of growth - the only answer to the country's pressing social problems - will not exist.

In April, the president gave himself a chance to break the political deadlock that has so far hampered his administration's economic reform efforts. His brother's recent allegations of corruption and drug abuse against the president may regrettably have set this process back.

The group of politicians Mr Collor brought into his cabinet in April has given the president the potential to deal more effectively with Congress, where he has lacked support since he took office in 1990. In doing so, however, he embraced traditional politicians for whom he expressed distaste in his presidential campaign.

New-found supporters

There are worries that this accommodation of old-style politicians will be accompanied by a return to old-style politics. The test of this will be whether in coming months public funds are distributed to the regions where the administration's new-found supporters are located, ahead of important local elections in October. This would compromise the government's fiscal policy.

However, the credibility of the policy should be enhanced by the continuation in office of economist minister, Mr Marcello Marques Moreira, and his team. It has helped gradually to rebuild Brazil's damaged image with foreign financial institutions, including international banks and the International Monetary Fund, with which the government has a

stand-by loan programme. Continued fiscal stringency is needed not least to maintain the support of the IMF. Without it, a potential debt reduction accord now being discussed with international banks would unravel. That accord is needed to bring a boost in confidence which should help to lower domestic interest rates. This, in turn, would reduce the crippling cost of Brazil's internal debt, which feeds both the fiscal deficit and inflation.

Purse strings

The economic team held tightly to the purse strings in the first three months of this year, allegedly compressing government expenditure by 60 per cent in real terms from the same period last year. Even then, the government failed to meet the targets set for the first quarter of its IMF programme. The government says it is confident of meeting its half-year IMF targets. Although revenues should now be rising as delayed corporate tax payments start to flow, these are likely to be insufficient to avoid further drastic expenditure compression, which is neither sustainable nor desirable for long.

For a more permanent solution, congressional action is needed, first to reform and simplify the tax system, also making clearer the divisions of responsibility between federal and state governments, and second to reform the 1988 constitution, which at present makes Brazil almost impossible to govern. This would permit the necessary rationalisation of the state, allowing the government to fire employees, for example.

By lowering tariffs and other measures, the Collor administration has, despite early mistakes, begun to shake up Brazil's ossified, inefficient and state-dependent private sector. But progress is dependent on Mr Collor's breaking the political stalemate.

If he fails to do that this year, his chances of doing so in the last two years of his presidency will be remote. By then, the window that has opened for a resolution of Brazil's external financial difficulties may well have closed: the support of the IMF and what sympathy exists among international banks will not be extended indefinitely.

In the balmy heat of Belgrade, the Serbian capital, the impact of the United Nations sanctions imposed on Serbia and its ally, Montenegro, a week ago appear as far removed from the fighting and killing in neighbouring Bosnia-Herzegovina.

Young and old sip Turkish coffees and smoke western cigarettes in the outdoor cafes. Smartly dressed drivers in their BMWs and Mercedes speed up and down the main boulevards. There is little to disturb the peace in Belgrade. Unlike Croatia, or Bosnia, war has never touched the people of Serbia.

Yet many in the capital are afraid that the republic will soon be engulfed in civil war - a fear heightened by the imposition of sanctions. Those who have the money are beginning to stockpile food and other provisions in their cellars. Petrol is now rationed, with private car owners limited to 30 litres a month per car. Prices of basic goods have doubled in the past week. The country's steel mills are running out of coke and iron ore imported from Latin America and eastern Europe. Even the mint in Serbia is unable to print money. It is running out of dinars, the unit of currency, because the watermark and paper are imported from the republic of Slovenia, which has also brought sanctions against Serbia.

The sanctions, which include a complete trade embargo on everything from textiles to cigarettes, the banning of all flights in and out of Serbia, a freeze on the republic's assets held abroad, and the reduction of diplomatic staff in embassies, were imposed by the UN on Serbia for two reasons.

First, they were aimed at forcing the Serbian president, Mr Slobodan Milosevic, to order Serb irregulars and the rump Yugoslav army to stop fighting in Bosnia-Herzegovina. Second, in a less explicit way, western governments hoped that sanctions would lead to the overthrow of the Milosevic regime through anti-government demonstrations, and the subsequent installation of a pro-European democratic government in Belgrade.

So far, there are no signs that the guns will fall silent in war-torn Bosnia. Serbian irregulars continue to expel Moslems from villages with the aim of creating ethnically pure regions. Croatian forces continue to try to form bridgeheads between Croatia and Croat-populated areas of Bosnia. The population of Sarajevo, the Bosnian capital, is on the verge of starvation following a two-month siege imposed by the Serb irregulars and the Yugoslav army.

Even if there is a formal end to the war, the desire for revenge among Bosnia's three ethnic groups means that the killing is likely to continue - although perhaps not so systematically - in that republic.

In an attempt to distance Serbia from the war in Bosnia, to end the UN sanctions, Mr Milosevic is now disowning the Bosnian Serbs, whom he once supported. He has said that Serbia is not involved in the civil war in Bosnia-Herzegovina. His government ministers repeatedly claim that the sanctions are unjust because Serbia is not the only guilty party.

At the same time, the sanctions have not yet galvanised the opposition into effective action against the Milosevic regime. This is because the opposition is fragmented between nationalists and liberals, and both groups are too weak to attract public support in their attempt to topple Mr Milosevic.

For example, the armed, ultra-nationalist Serbian Radical party,

led by Mr Vojislav Seselj, regards as traitors anyone who opposes the creation of a Greater Serbia, who wants a free press, or who advocates rights for the ethnic minorities in Serbia. The party enjoys considerable support in the countryside and in parts of Belgrade.

Another opposition movement, the Serbian Renewal party, based in one of Belgrade's more fashionable suburbs, is a motley collection of nationalists, conservatives and monarchists. Led by Mr Vuk Draskovic, one of the few Serb politicians who spoke out against the war in Croatia and Bosnia, the Renewal party also believes in a Greater Serbia and the re-establishment of the former Yugoslavia on the lines of a confederation.

Hopes that the Democratic party, the most liberal of all the Serbian opposition movements, will emerge as a viable force against the Milosevic government remain misplaced.

Politically, its leaders want a democratic Serbia. But Mr Zoran Djindjic, one of the Democratic party's most articulate leaders, says that speaking openly about democracy in Serbia - which includes granting ethnic rights to the Albanians in Kosovo, the Moslems in Sanjak in south-western Serbia, and the ethnic Hungarians in Vojvodina, northern Serbia - would amount to electoral suicide.

"The civil society is very weak here. Serbs do not reflect about democracy and its implications," said Mr Djindjic. A senior Democratic party official said: "Serbs simply do not care about the ethnic minorities, particularly the Albanians. They despise them."

Nevertheless, in spite of such evidence of a weak attachment to democratic political traditions in Serbia, the Democratic party wants to form a transitional government of national consensus which would include Mr Milosevic's ruling Serbian Socialist party. Although members of the Socialist party are beginning to try to distance themselves from Mr Milosevic's regime, his support is still strong enough for him to dictate the terms of any power-sharing arrangement.

Mr Djindjic said last week a coalition government would prepare for free, democratic elections, monitored by international observers. He admitted that, by including socialists in any coalition government, the Democratic party's supporters would accuse it of selling out to the Milosevic regime. He also said that the Serbian president would try to use that government to remain in power, or even to pre-empt efforts to bring democracy and stability to the republic by fomenting civil war.

"The ingredients for war are all here in Serbia," explained Mr Djind-

No shelter from the storm

Imposition of UN sanctions against Serbia is exacerbating fears that the civil war will spread to the republic, says Judy Dempsey

The Balkan tragedy



Slobodan Milosevic, Serbian president. Vojislav Seselj, Serbian Radical party. Zoran Djindjic, Serbian Democratic party.

He said thousands of Yugoslav federal army officers and their families had withdrawn into Serbia when they were forced to leave the other republics under the terms of the UN agreement in Croatia; 500,000 refugees had fled to Serbia from Croatia and Bosnia-Herzegovina; and the extreme nationalists were jockeying for power.

Given this atmosphere of recrimination and rivalry, the Democratic party is increasingly concerned that any delay in setting up a coalition government will give Mr Milosevic an opportunity to orchestrate unrest in order for the socialists to remain in power.

Desperation at being boxed in may, however, make the Serbian president more unpredictable in the measures he takes to stay in power. United Nations peace-keeping troops have been deployed in Croatia. The Yugoslav federal army has withdrawn from the independent republic of Macedonia. What remains is Kosovo, which is the president's trump card, or potentially his Achilles' heel, as he calculates his next move.

It was in this wretchedly poor province of 2m ethnic Albanians that Mr Milosevic began his rise to power in 1987. By using the rhetoric of nationalism, he accused the Albanians of persecuting the small Serb and Montenegrin ethnic minorities. By exploiting Serbia's historical claim on Kosovo, once the cradle of Serbia's medieval empire, he rallied enough support to incorporate the province forcibly into Serbia in 1990. Since then, Kosovo has been run by Belgrade like a police state and the civil rights of the Albanians who make up 90 per cent of the population - have been suppressed.

Despite this violation, the ethnic (Moslem) Albanians, led by Mr Veton Surroi and Mr Ibrahim Rugova, have adopted a policy of non-violence. But western diplomats doubt that this policy can continue. The tension is building up in Serbia because it is sitting on a time bomb - in Kosovo, its own back garden. Milosevic cannot hope for any stability in the new Yugoslavia as long as he continues to repress the Albanians, a western diplomat said.

But Serbia is saddled with a paradox: no party in Serbia can win at the ballot box if it guarantees to protect the civil rights of minorities in the republic - including the ethnic Albanians. Yet no stability in Serbia is possible without granting ethnic rights to the minorities.

The possibility of war in Kosovo is of increasing concern to western governments, particularly the US. American diplomats say that Albania would support its fellow ethnic Albanians in Kosovo if nationalists around Mr Seselj or Mr Milosevic provoked a war in the province, or indeed, if the ethnic Albanians themselves attempted to rebel against their Serb government.

In such an event, the ethnic Albanians in neighbouring Macedonia, who make up 20 per cent of the population, and the government of Turkey would probably support Kosovo as well. "Turkey has had enough of the slaughter of their fellow Moslems in Bosnia. They won't stand idly by next time. They might arm the ethnic Albanians," a diplomat said.

However, few diplomats, or liberal intellectuals in Belgrade, can see a way out of the impasse. They fear that instability triggered by an outbreak of war in Kosovo will spread throughout the Balkans in a conflict which could last for many years.

Western governments have so far ruled out military intervention, either in Sarajevo or to protect Kosovo's Albanians, because they are unsure what such a move would achieve. They are not even certain that sanctions, even if they stay in place against Serbia for many months, will force the Serbian leadership into starting negotiations with its ethnic Albanians. With Mr Milosevic at the helm, and ultra-nationalists waiting for him to falter, the depressing likelihood remains that things will get worse rather than better.

BOOK REVIEW

A surplus of gloom

Contemporary western writing about Japan tends to fall into a number of distinct genres. There is the American school of Japan-bashing, which relates Japan's unrelenting quest for world economic domination and, in extreme manifestations, how this will lead to war between Japan and the US. At a somewhat subtler level are the revisionists, who seek to describe how Japan organises its economic and social affairs and why this leads it to indulge in unfair international trading. Conversely, there are those writers who simply marvel at the phenomenon that is Japan's economy and want to learn from its success.

Japan: The Coming Collapse is, as its title suggests, none of the above. It falls into another genre which appears to be just coming into vogue: the doomsday scenario. The startling thesis advanced by Brian Reading, a former economics editor of The Economist, goes like this: the massive deflation of asset values in the Tokyo stock and real estate markets of the past two years is merely a taste of worse to come; the banking system is on the point of collapse; growing trade friction with other industrialised countries will help to tip the economy into a protracted recession. Worse yet, he argues, governments will fail to produce the necessary political, economic and social reforms, and Japanese politics will move from its current consensual paralysis to a state of confrontation and anarchy. In short, in the book's words, "this is no economic superpower bent on world domination. It is a hazy-kiki economy set to self-destruct."

Reading's analysis is as beguiling as it is compelling. Not the least of its attractions is that it appears to point to a conclusion in which many of us secretly want to believe: that the Japanese economy is so fundamentally flawed that it will

JAPAN: THE COMING COLLAPSE

By Brian Reading
Weidenfeld & Nicholson. £13.99.
310 pages

soon collapse under the weight of its own contradictions, and in the process become a less daunting competitor. There is only one problem: it is far from clear that the analysis will come true.

To be sure, the Japanese economy is not in the best of health right now. Japanese banks are labouring under a bad-debt burden that will take years to sort out. Bankruptcies are at record levels. The stock market is punch-drunk, and property is still going south. The once-invincible carmakers and electronics companies are struggling. The trade surplus is soaring again and Japan's trade partners are looking for weapons with which to lower it. The question is whether this all adds up to Reading's apocalypse, or to a transformation that is less cataclysmic, more complex, and - dare one say? - less susceptible to description in publisher-pleasing one-liners.

Reading is at his most plausible and interesting when he is seeking to diagnose what is demonstrably wrong with Japan's economy and society: the defects in its tax system, which suffers rampant evasion and has long failed to collect adequate revenues for the government; the absurdities of its land-use policy, whereby most Japanese city-dwellers are forced to live in little boxes, while urban farmers are subsidised for growing rice on minuscule plots next door; the ills of money politics, and the failure of the political system to cater to the needs of Japanese consumers as well as producers.

Where he is less convincing is in suggesting that Japan's problems in

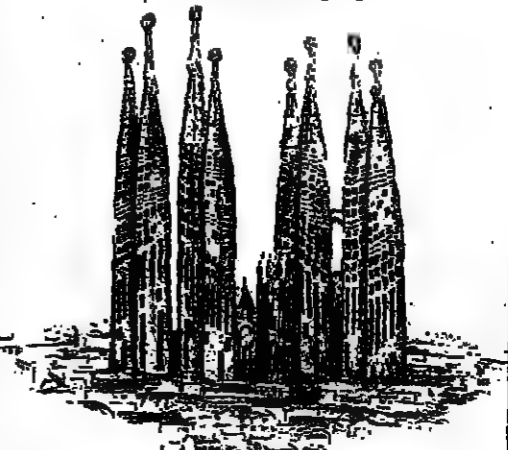
these respects are of a different order from those of many other industrial countries. And where he is not convincing at all is in predicting that all these factors will inevitably combine with the hangover from the 1980s boom to produce an economic and, finally, political mega crisis. The injection of a superficial chapter covering Japan's history, from the beginning to 1945, does not help. Nor does the repeated misspelling of the name of the Federal Reserve chairman, Paul Volcker. The troubling fact is that signs of the meltdown Reading describes are hard to discern in Tokyo. Yes, there is a severe economic slowdown, and yes, the economy probably is in for a prolonged period of slow growth even when it starts to recover. Yes, the financial system is in trouble and will not be a source of cheap and easy credit again for many years to come. Yes, the political system is corrupt - probably irredeemably so.

But Japan's is scarcely expected to be the only slow-growth economy in the 1990s, and it will continue to benefit more than some others from its high level of capital investment and savings. And while it is true that investment yields have been miserably low in Japan for years, largely as a result of expectations of never-ending capital growth, it is not automatic that the end of rising share prices will cause investors to demand a quantum leap in yields, as Reading suggests.

In short, like all polemicists, Reading overstates his case. This is a shame, because among the prophesies of doom are some telling points about the way Japanese society is changing and in some respects becoming more like the rest of us. The task of writing an authoritative and considered economic history of post-war Japan in English has yet to be accomplished.

Andrew Gowers

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ECONOMIC VIEWPOINT

Emu: time to go back to evolutionary approach

By Samuel Brittan

Obviously Bruges Group supporters cheered the result of the Danish referendum, because they dislike "Europe", or fixed exchange rates, or supranational bodies. But it might be worth explaining why I should have given at least two cheers, as someone who favours an eventual European currency, and has no hang-up over a European political authority, so long as its functions are confined to currency, external and internal law and order, and the other classical functions of a limited federal government. Central European countries would have no difficulty in participating in a minimalist federation of this kind.

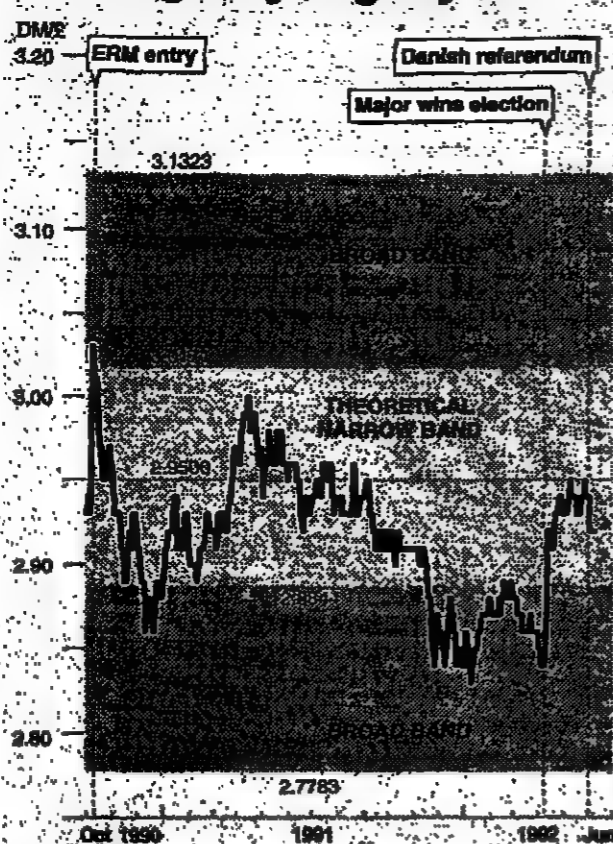
The best account I can give of my attitude is by recalling an occasion when a Euro enthusiast was asked about a remark of Ludwig Erhard, then German chancellor. Having made sure that the Chatham House rules of non-attribution were being observed, the Eurocrat said: "I was talking about serious politicians." The Danish referendum is a victory for those of us who are not serious politicians in the bureaucratic, institution-building sense.

It would nevertheless be difficult for me to vote "no" in a UK referendum on Maastricht, partly because of my support for an eventual common currency, and partly because most of the objectionable features in Community practice — such as interference in working hours and conditions of employment or Commission "environmental" directives on road and rail projects — are justified by their promotion with reference to the original Treaty of Rome or the small print of the Single European Act. Maastricht, by comparison, is harmless. The prime minister himself defends it in terms of what it omits. It is not worth the career of a single cabinet minister.

Having said this, the Danish result is a still a tonic for those of us who are much keener on the exchange rate mechanism (ERM) than economic and monetary union (Emu). For the latter, as put forward from Brussels and Paris, was always accompanied by proposals for vast regional and structural funds to build cathedrals in the desert and a "social dimension", which was anti-social and job-destroying. These plans have received a setback this week as a direct result of the Danish referendum.

With the automatic Maastricht timetable now in trouble, it is clear that the best way to a single European currency is through a strengthening of the ERM. There was, indeed, once a British Treasury paper taking a similar line,

Sterling only slightly hurt



which warned that "administratively imposed changes would inevitably fail to foresee future developments".

On the other hand, the paper argued, the strengthening of the internal market and "convergence on price and exchange rate stability" would lead to realignments, and smaller fluctuations within the ERM bands. With minimal exchange rate uncertainty, and reduced costs of switching between currencies, all Community currencies would become effectively interchangeable, and the system "could evolve into one of fixed exchange rates".

I am citing a British government paper entitled *An Evolutionary Approach to Economic and Monetary Union*, published in November 1988. The paper was conceived in Nigel Lawson's Treasury, but published when John Major had taken over as chancellor. It was thus an orphan.

The earlier chancellor had been attracted by Friedrich Hayek's notion of competing currencies, but competing within their ERM bands. John Oiling-Smee, who headed the

team of officials then in charge, came however to the conclusion that, except during Latin-American type hyperinflation, most people would stick to most transactions to the currency with which they were familiar. His idea was competing monetary policies in which the country with the greatest non-inflationary credibility would have the lowest interest rates. But there was room for the two ideas jostling by side.

What sticks in my memory, however, is the contentious way with which the idea in any guise was shrugged off by the continental establishment. Jacques Delors and Karl Otto Pohl, then head of the Bundesbank, joined together in scoffing at choice among currencies. (A short train ride to Geneva or Salzburg would have shown them how this choice was exercised in their own backyards.) A European monetary union, they both averred, had to have a single currency, and that was that. So doing they both exaggerated the importance of legal tender laws and overlooked the extent to which a new European unit

would have to earn its place rather than be imposed by fiat or treaty.

The scoffing was also to be heard in the UK. Sir Michael Butler, former British representative in Brussels, dismissed the Treasury paper because it did not involve a new institution and did not require an amendment to the Rome Treaty. His enthusiasm for the hard Emu (invented not by him but by Paul Richards, a thoughtful and genuinely charming economist-turned-banker) derived mainly from the fact that it did require an institution which Britain could propose at an international conference and thus remain at the top table.

I always found, however, that the hard Emu, treated as a serious economic proposal, involved an excessively long chain of hypothetical reasoning to form an easy judgment upon; and it would only be confusing to revive it now.

The evolutionary route to monetary union was always the one most likely to work. It may now become the only one. So far the Danish referendum has given only a tiny jolt to the credibility of the ERM. Sterling has lost only a small proportion of the gains which it received after John Major's surprise election victory. The French franc has also fallen by a couple of centimes against the D-Mark. Sterling and franc bonds have similarly suffered a minuscule blow. The big jump has been in Italian bond yields, deservedly so given that Italian participation in Emu would have flown in the face of financial reality. ("In contrast to the British, we wanted the Germans to sort out our financial affairs," said an Italian friend.)

But there is a problem. The French willingness to bear the apparent sacrifices of sticking to an unchanging D-Mark parity was linked to the goal of a political Europe in which France would have a much greater say. Even in the UK early advocates of ERM membership saw it as a way of imposing monetarism by the external backdoor on the Tory "wets". A big idea is still needed in default of the Maastricht ambitions, to hold European currencies together.

There is such a big idea, but it would require a Gladstone to give it a demagogic appeal. It is that of limited government based on the rule of law and sound money, and with as much power as possible being exercised by the people at the grass roots. So long as the idea is called "subsidiarity" and remains in Eurospeak, it will not be powerful enough to withstand the demagogues and interventionists who still hanker after devaluations.

Maastricht is harmless — not worth the career of a single cabinet minister

OBSERVER

Name on the line

■ Past...fancy owning the Greenwich meridian? A three-year lease on the world's best known line is being offered by the Old Royal Observatory in London's Greenwich Park, at £150,000 per annum.

Besides being a snip compared with the Jubilee line extension, the meridian isn't entirely imaginary. At least a few yards thereof are marked on the ground for tourists to stride and be photographed with one foot in the western hemisphere and the other in the eastern. The hope is that some company might like to get its name in the picture by becoming the line's official sponsor, so helping to re-develop Greenwich's "museum of time".

The plan is to have nine galleries housing astronomical instruments and the like, some dating back beyond the observatory's foundation by Charles II in 1675, according to project chief Stephen Deuchar. "The work will cost £800,000. So we thought, since Accurist is the speaking British Telecom's speaking clock, why not the meridian?" Well, perhaps so, Observer said. But whatever next — put Greenwich Mean Time itself on the market?

"How much a second d'you think we could get for it?", answered Deuchar.

Charmless

■ Like many British businessmen who were schooled in the British car industry of the 1960's, GrandMet's Sir Allen Sheppard shoots from the hip. Even so his minders must have winced at his explanation at yesterday's CBI corporate governance conference on why

Name on the line

he doesn't have any women on his board. Sir Allen said he would dearly love to appoint a woman with the qualities of Sir John Harvey-Jones or Sir Dick Giordano, two of his most famous non-executives. But any woman seeking to match them "would have to have an operation." His audience, liberally sprinkled with women, didn't see the joke.

Strategic choice

■ One question that has been intriguing London's community of strategic thinkers for the past eight months — where will Francois Heisbourg, the high-flying director of the International Institute for Strategic Studies, land next? — seems to have been resolved.

The bubbling 42-year-old Frenchman will not for the moment be launching himself into politics. He's joining the defence and space division of France's Matra group, as senior vice president, when he vacates the IJSS post in October. The former diplomat and defence ministry adviser had a three-year spell with industry before, at state-controlled Thomson-CSF, but this will be a more senior job.

What will he be in charge of at Matra? Why, strategy, of course.

More whirlybirds

■ No sooner has Michael Heseltine returned to the inner circle of the cabinet than he has found himself mucking around with helicopters again. Let's hope he's luckier than he was last time.

Back in 1986, during the infamous Westland row, he lost his job and the strategic battle. Yesterday, he referred two bids for Maxwell's British International Helicopters to



"Every eight seconds, the US loses another acre of credibility"

the Monopolies and Mergers Commission. Although President Heseltine has not chosen sides, it would be surprising if he was not secretly rooting for a victory for the only unrefuted UK bidder, the management buy-out team operating under the unglamorous name of Vidhop Ltd.

Persistent

■ Not everyone at yesterday's Saatchi and Saatchi AGM seemed overjoyed by the hard work the advertising giant had put in getting the Tories re-elected. One questioner reminded chairman Maurice Saatchi that last year he had asked him if newspaper reports saying Saatchi was yet again going to work for the Conservative Party in the election were true. Maurice told him not to believe everything that he read in the press.

"I now read in the newspapers that Saatchi is going to work for Ross Perot in his bid to become US president. Is that true?", asked the questioner.

With scarcely a pause for breath, Maurice Saatchi said: "I am afraid the reply is the same this year, too."

Plane fair

■ Remember the fuss about John Major's clapped-out plane which shuttled him around central Europe last month? Well, liberal-minded Croats must think he is a wise, thrifty hero compared with their President, Franjo Tudjman.

Tudjman's sense of importance of a republic which is the size of Wales, reached new heights when the United Nations, rather reluctantly, decided to add Croatia's membership to the UN.

Slovenia, and war-torn Bosnia-Herzegovina, joined at the same time. While his neighbour from Slovenia, Milan Kucan bought a return ticket to New York without any fuss, and Bosnian president, Alija Izetbegovic had to remain in the besieged Bosnian capital of Sarajevo because it was too dangerous to leave, Tudjman pulled out all the stops.

He spent US dollars 12m on a new plane.

Riposte

■ Vociferous Labour MP Dennis Skinner's non-stop heckling was neatly countered by social security secretary, Peter Lilley during the Commons debate on the Maxwell pensions scandal.

If the left-winger went on interrupting his speech, he said, Hansard's report of the debate would keep printing their two names one after the other. Wouldn't the repetitions of Lilley and Skinner give the Labour MP's fellow socialists the idea he was part of a capitalist partnership?

For a moment, at least, the heckler fell silent.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Negative equity overstated

From Mr Adrian Cole

Sir, The estimate of the number of borrowers with negative equity, which early drafts of a Phillips and Drew report suggest is between 1.5m and 2m — and which you reported on June 8 ("Homes that fail to hold their value") — ignores four crucial factors.

● The report assumes that anyone obtaining a mortgage of 90 per cent of the purchase price in, say, 1988 and who has since seen house prices fall by more than 10 per cent, now has negative equity. However, 750,000 council houses were sold at an average discount to market value of 50 per cent between 1987 and 1991. Sitting tenant council house purchasers would need to experience price reductions of at least 50 per cent before entering negative equity statistics.

● The report assumes no one who purchased between 1987 and 1991 has subsequently moved. This is an extreme assumption which clearly exaggerates the number of borrowers with negative equity.

● The report assumes that borrowers do not make any repayments. There has been a sharp increase in the flow of regular repayments, the figure for building societies alone rising from less than £2m to more than £4.5m between 1989 and 1991. The amount of lump sum

EC leaders failed to explain subsidiarity

From Mr Stanley Crossick

Sir, "Unnecessary in its goals, obscure in its language, incompetent in its detail, the Maastricht Treaty has few redeeming features," wrote Martin Wolf ("A break in the march of history", June 6). His article fails to support such an assertion.

Moreover, in declaring that "nothing in historical experience suggests such a structure is feasible, let alone desirable," Mr Wolf reveals an unwillingness to learn from, or even understand, history.

Martin Wolf is, however, right in stating that the treaty is basically about power — but not the abuse of power nor the balance of power.

Recognising the long-term limits of intergovernmental co-operation, the Maastricht Treaty continues the policy of

European integration and interdependence.

Moreover, it introduces the principle of subsidiarity, ie that the Community shall act "only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the member states and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community."

Unfortunately, Community leaders have failed to explain to the people — let alone convince them — that the principle of subsidiarity guarantees that there will in future be no unnecessary interference from Brussels.

Stanley Crossick, chairman, Belmont European Policy Centre, Brussels

Referendum a denial of sovereignty

From Mr Bryan Cassidy MEP

Sir, As one who is far from disconcerted by the result of the Danish referendum on Maastricht, I nonetheless find it odd that in the UK those who are now shouting the loudest for a referendum are those who used to be staunch defenders of the sovereignty of the House of Commons.

Isn't a referendum a denial of the sovereignty of parliament? Bryan Cassidy, MEP Dorset East and Hampshire West, The Stables, White Cliff Gardens, Blandford, Dorset DT11 1BU

Riposte from the Palace?

From Mr Brian F Oxl

Sir, An error clearly crept into the caption of your photo story on page 8 on June 9 ("Vanguard").

Surely the military convoy led by a Scorpion armoured vehicle was on its way to News International's Wapping plant as the Palace's considered response to the weekend's inflammatory stories.

Brian F Oxl, 261 Grove Street, London SE28 3PE

Minister has not dealt with many problems of contracting out

From Ms Elizabeth Symons

Sir, May I add a few points to your balanced and thoughtful editorial on the "Long road to Whitehall reform" (June 3), without falling into the category of "the reservations so skilfully expressed in Whitehall".

Representing almost 50 per cent of the senior civil servants in Whitehall, the FDA welcomes minister of public service William Waldegrave's support in our campaign for greater openness which we have pursued since 1986, often in opposition to the government and Conservative backbenchers.

But Mr Waldegrave did not

deal with many of the serious problems underlying the contracting out of central government services.

For example, the issue of impartiality. We are not told whether each part of the civil service to be contracted out will have its own "watch-dog" body, but an enormous proliferation of such regulators can be anticipated if public confidence in impartiality is to be maintained.

Or confidentiality. How will the private sector guarantee confidentiality when it is dealing with our tax affairs? How many businesses in the commercial arena want their business competitors to be fully

confronted with their financial affairs?

Then there is the risk of conflicts of interest. For example, a legal firm may be in difficulty when dealing with a customer in a manner which is prejudicial to the public interest, while at the same time retaining a contract for government work.

Finally, at senior levels, those in the private sector are consistently very much better paid and more expensive than their civil service counterparts. Barristers' advice in the civil service costs about £80,000 a year whereas the private sector pays well over double that figure.

Sadly we lack a real public debate. The contracting out of individual parts of the civil service will need no parliamentary debate, so the necessity of an independent assessment of real value for money will become vitally important.

We have suggested to William Waldegrave that all tenders for contracting out work should be referred to the comptroller and auditor general. We hope our suggestion, which is designed to be helpful, will receive a fair hearing. Elizabeth Symons, general secretary, FDA, 3 Carlton Street, London SW1H 0QH

Software Star.



Granada Television (GTV) is arguably the most successful independent TV company in the UK, with an enviable 36-year record of broadcasting highly popular programmes such as Coronation Street and World in Action.

"There's a special skill in sustaining that relationship with a viewer," says Wall. "We've done so for many years, and our advertisers obviously appreciate it — in spite of last year's difficult trading environment our advertising turnover was £165 million."

Wall attributes this success to a hardworking sales team and flexible computer software. "We use the ADage airline sales system built exclusively on Computer Associates' CA-DATACOM and CA-IDEAL software products."

Wall recognised the benefits of adaptability a long time ago. "Once an ad goes out," says Wall, "you can't go back and resell the airtime. So we needed a key management tool to assess the best match of product versus audience viewing in a particular break."

"The versatile CA product-based system provides much more than that, including direct links to agencies so they can see what their bookings are."

"The system has helped us to increase our market share substantially," says Wall.

It has also given them confidence in their ability to achieve future objectives. Wall explains: "The satellite boom and other big changes in the market are upon us. Thankfully, the CA products provide a very flexible base that enables us to constantly adapt the sales system as we enhance the way we sell."

"You can't predict the future, but with a system built on CA products we're ready for the next episode in our series of successes!"

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Thursday June 11 1992

MERCURY
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The FT proposes to publish this survey on
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Data source: European Business Readership Survey 1992

FT SURVEYS

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It will be of particular interest to the 130,000 directors and managers in the UK who read the weekday FT.*

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Data source: BMC Businessman Survey 1990

FT SURVEYS

INTERNATIONAL COMPANIES AND CAPITAL MARKETS

A share of Brazilian equity action

Life is becoming easier for foreign investors, writes Bill Hinchberger

BRASIL'S macroeconomic changes are moving slowly by the standards of some of its Latin American neighbours - but capital market reforms, particularly for equities, are accelerating fast. Foreign institutional investors can trade directly in Brazilian equities; a 25 per cent tax on stock profits has been eliminated for foreigners; institutional investors from abroad but registered in Brazil can trade currency and gold futures, and invest up to 25 per cent of their portfolios in domestic fixed-rate debt.

As a result, from a modest base, foreign portfolio investment in Brazil has begun to rocket. During the first four months of 1992, some \$2.3bn entered the country, with \$1.4bn going into equities. This compares with \$1.5bn in the whole of last year, of which \$700m was in shares. In 1990, overall foreign investment was \$688m, and in 1989, \$333m.

The road to reform can be traced to Mr Ary Oswaldo Mattos Filho, who in 1990 assumed the top spot at the CVM, Brazil's regulatory watchdog. He moved the commission out of its old headquarters in Rio de Janeiro and relocated in Brasilia, the political capital. He then outlined proposals for change in a January 1991 blueprint.

Mr Mattos Filho implemented many of the plan's 60

points before leaving the CVM. Mr Roberto Faldini replaced him in March. Coincidentally or not, the last significant changes in capital market regulations were announced in January, when the definition of foreign institutions permitted to invest in Brazil was widened.

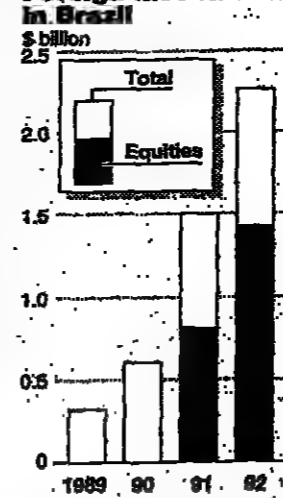
Mr Faldini seems more cautious than his predecessor. A former official of Abraspa, the association of public companies, and a director of Metal Leve, the car parts manufacturer, he is considered more sympathetic to company owners and management.

On taking office at the CVM, he voiced his opposition to Mr Mattos Filho's proposal to issue higher proportions of voting shares. Owners of Brazilian companies generally prefer to offer non-voting shares, leaving stockholders few options for influencing policy.

This is encouraged by a requirement that Brazilian pension funds hold at least 25 per cent of their portfolios in equities, providing a captive market for non-voting stock in the narrow Brazilian bourses.

Many companies argue they do not offer voting shares because the secondary market is too small. Mr Mattos Filho, however, believed liquidity was lacking precisely because companies offer so few voting

Foreign investment in Brazil



shares. Mr Faldini is opposed to plans, laid down by the former CVM chief, aimed at breaking this vicious circle through regulatory reform.

Mr Alvaro A. Vidigal, president of the Sao Paulo Stock Exchange (Bovespa), which accounts for 70 per cent of the country's trading, advocates eliminating the pension fund investment floor but letting companies determine the mix of their offerings.

Since the terrain was opened to foreign institutions last year, reformers have been calling for an invitation to individuals from abroad. Mr Vidigal favours the immediate intro-

duction of these investors. Mr Faldini publicly defends a gradual approach, first including citizens from Brazil's partners in the proposed Mercosur common market: Argentina, Paraguay and Uruguay. That move is expected later this year, when the final touches are put on an agreement that will give investors from Mercosur countries equal footing with native citizens in each of the four countries.

First, however, negotiators must resolve the issue of capital gains tax, which exists in Brazil, for instance, but not in Argentina.

Meanwhile, Bovespa wants to guarantee greater openness. One step has been to adopt electronic trading. It is also strengthening self-regulation.

In May, its administrative council upheld an earlier ruling to punish directors and market operators of Banco Garantia, who were charged with selling stocks at below market price to bring down the exchange's Bovespa index. The offending shares were primarily those of Telebras, the state-controlled telecommunications company that accounts for over half of trading.

The individuals were suspended for one year and fined \$25,000 each, the maximum by law. Bovespa is now investigating Garantia (as opposed to individual directors and employees), and may bring charges against the bank.

NEWS IN BRIEF

KIO names new head of Spanish operations

THE KUWAIT Investment Office (KIO) has appointed a new head of operations in Spain following the resignation of its Spanish partner last week. Reuter reports from Barcelona.

Grupo Torres, KIO's Spanish arm, says a newly-appointed board met in London yesterday and named Ali al Bader as chairman and Mahmoud Al Nouri as deputy chairman with executive functions to replace Javier de la Rosa. Mr de la Rosa stepped down to pursue private interests.

SPAIN'S state industrial holding company, Instituto Nacional de Industria (INI), has agreed with Bankers Trust of the US to launch a joint financial venture in Spain, AP-DI reports from Madrid.

INI said the venture would set up a portfolio management company, dealing with real estate investments and pension funds. The new company will be owned equally by Bankers Trust and by INI through its insurance unit, Sociedad Mutua de Seguros y Reaseguros (Mutual).

ITALIAN-SWISS group, Sasea Holding, has filed a request for protection from creditors with a Geneva court. Under the filing, creditors would agree to a partial payment of debts and the company would continue with some of its activities, Reuter reports from Milan.

The company said it reached agreement with some of its banks which would allow it to continue some operations and assure liquidity for the partial debt settlement.

Under the requested *sursis concordataire*, Sasea would propose a fixed-rate settlement to its individual creditors in proportion to the debt owed.

CANADIAN Marconi, controlled by British General Electric, will supply a new navigation aid to Honeywell for incorporation in the US firm's family of commercial aircraft instrument systems.

Record issues at Fannie Mae

THE FEDERAL National Mortgage Association has issued a record \$19bn of mortgage-backed securities in May, up from \$17.9bn in April. Reuter reports from New York.

Of this, a record \$16.7bn was backed by new loans, as opposed to mortgages in Fannie Mae's portfolio, the association said. Lender-originated mortgage issues were \$16.5bn in April.

Fannie Mae mortgage-backed securities outstanding grew to \$404.4bn at May 31, up \$8.6bn or a 26 per cent annualised rate from a month earlier.

Kredietbank expands overseas

KREDIETBANK, which usually presents itself as the most regional of the three big Belgian banks, wants to put on a more international face, Reuter reports from Brussels.

Announcing the opening of new branch offices in Manchester, Dublin, Moscow, Berlin, Paris and Moscow, Mr Marcel Cockaerts, chairman, said: "We want to grow in concentric circles [around Belgium]."

Mr Cockaerts told the bank's annual press conference that a "strong home base is the point of departure for a growing international activity in a unified Europe".

The bank wants to build a network of subsidiaries in

neighbouring countries and a presence in other countries if warranted.

The new policy is already reflected in the balance sheet: at the end of March, 47.1 per cent of non-consolidated assets were foreign, up from 43 per cent a year ago and 38 per cent in 1989.

"In volume, foreign transactions are now as important as domestic ones," Mr Cockaerts said.

He said domestic retail banking still accounted for two-thirds of the bank's net profit, with the other one-third coming from banking abroad and professional business.

However, slower earnings

growth from domestic banking would hit Kredietbank's 1992 profit growth, he said.

"The pressure on our Belgian francs interest rate margin has increased," Mr Cockaerts said. He said that, unlike last year, Kredietbank would not be able to fully compensate the rising cost of client deposits with a higher margin on lending rates.

He said net profits in 1992 would increase, but not by as much as the 21 per cent jump to BF7.4bn (\$226m) in 1991-92.

The bank plans to change its financial year-end to December. This year's accounting period will run for nine months.

NOTICE TO THE HOLDERS OF

Renown Incorporated

(the "Company")
U.S. \$35,000,000
5 1/4 per cent. Convertible Bonds Due 1996
(the "Bonds")

At the Ordinary General Meeting of Shareholders of the Company held on 27th March, 1992, a resolution was adopted to amend the Company's Articles of Incorporation so as to change the Company's financial year-end from 31st December to 31st January. As a transitional measure, the Company will have two irregular financial periods, the first running from 1st January, 1992 through 31st July, 1992 and the second commencing on 1st August, 1992 and ending on 31st January, 1993. The first new full financial year will begin on 1st February, 1993.

The interest period (each 12 month period ending on 31st December) and the interest payment date (1st December) with respect to the Bonds will not be changed. However, to take account of the above change in the financial year-end, the Company and the Industrial Bank of Japan Trust Company (the "Trustee") have entered into a supplemental trust deed (the "Supplemental Trust Deed") amending the Trust Deed dated 17th December, 1981 which constituted the Bonds, and the Terms and Conditions of the Bonds (the "Conditions"). The Supplemental Trust Deed has, in particular, amended:

- (i) the definition of "Dividend Annual Period" in Condition (B)(iii) to "the period commencing on 1st January, 1992 and ending on 31st July, 1992, and on 1st August, 1992 and ending on 31st January, 1993 and thereafter each 12 month period ending on 31st January in each year, provided that if the Articles of Incorporation of the Company are amended as provided hereinbefore in this sub-paragraph (i) or the Company shall change its financial year so as to end on a date other than 31st January the foregoing period shall be amended *mutatis mutandis*;" and
- (ii) Condition (B)(iii) to provide that any Bondholder who converts his Bonds) during the periods from 1st August to 31st December, 1992 (both days inclusive), or from 1st February to 31st December (both days inclusive), in any year starting 1993 will receive an amount equivalent to the interest accrued calculated at the rate of 5 1/4 per cent. per annum for the number of days elapsed during the period commencing on 1st January and ending on 31st July 1st 210 days or (as the case may be) the period commencing on 1st January and ending on 31st January 1st 30 days, immediately preceding the conversion date, through the Conversion Agent with which the Bonds have been deposited for conversion to or to the order of the relevant Bondholder. No other payment or adjustment will be made upon conversion for interest accrued on Bonds surrendered for conversion since the last Interest Payment Date last preceding the relevant Conversion Date.

No amendment has been made with respect to conversions of Bonds made during the periods from 1st January to 31st January in any year starting 1993 (both days inclusive). Thus, those Bondholders who, after collecting interest payments on their Bonds on 31st December in 1992 and 1993, convert their Bonds during the month of January in the following year, will also be able to collect dividends, if any are declared on 31st January in the following year and they choose to continue to hold the shares issued upon such conversion through each 31st January.

The foregoing amendments were made with effect from 27th March, 1992. Copies of the Trust Deed and the Supplemental Trust Deed are available for inspection at the principal office of the Trustee and the specified offices of the Paying and Conversion Agents listed below.

Trustee:
The Industrial Bank of Japan Trust Company 246 Park Avenue, New York N.Y. 10157

Paying and Conversion Agents:
Daiwa Europe Limited, 5 King William Street, London EC4N 7AX.
Robert Fleming & Co. Limited, 25 Copley Avenue, London EC2R 7DR.
The Sumitomo Bank, Limited, Temple Court, 11 Queen Victoria Street, London EC4N 4TA.
Banque Paribas de Paris, 16 boulevard des Capucines, 75009 Paris.
DG Bank Deutsche Genossenschaftsbank, Am Platz der Republik, D-6000 Frankfurt/Main 1, Pfleiderer, Heidinger & Pfeiderer N.V. Rokin 55, 1012 KK Amsterdam.
Union Bank of Switzerland, Bahnhofstrasse 45, CH-8002 Zurich and Morgan Guaranty Trust Company of New York, Avenue des Arts 35, B-1040 Brussels.

The Bonds will not be stamped or exchanged as a result of the amendment and will remain listed on the Luxembourg Stock Exchange.

Renown Incorporated
President and Representative Director

TRADING STRATEGIES & IDEAS

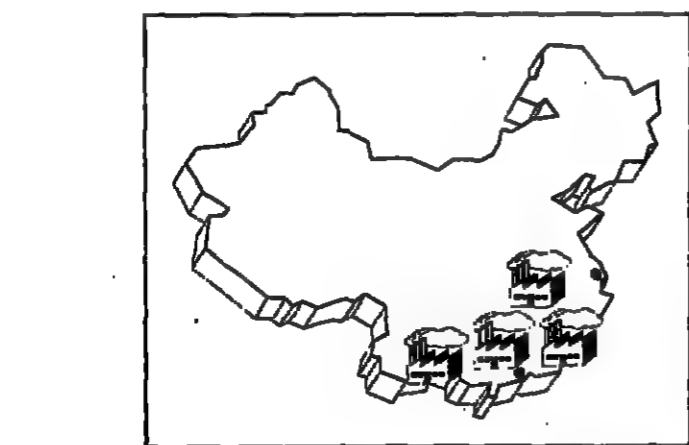
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GT Shenzhen and China Fund

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4 million units at US\$10.30 per unit



Fund Manager
GT Management (Asia) Limited



Placed by
Credit Lyonnais Securities (Asia) Ltd

The principal objective of the Fund is to achieve long-term capital growth by investing in the equities of companies in the People's Republic of China. The Fund is advised by Shum Yip Investment and Development Co., Ltd, a financial services company owned indirectly by the Government of the Shenzhen Economic Zone in South China.

May 1992

These units have been sold. This announcement appears as a matter of record only.

HongkongBank

The Hongkong and Shanghai Banking Corporation Limited
(Incorporated in Hong Kong with limited liability)

U.S. \$400,000,000

PRIMARY CAPITAL UNDATED FLOATING RATE NOTES
(SECOND SERIES)

Notice is hereby given that the Rate of Interest has been fixed at 5% and that the interest payable on the relevant Interest Payment Date September 11, 1992 in respect of \$5,000 nominal of the Notes will be \$93.95 and in respect of \$100,000 nominal of the Notes will be \$1,277.75.

June 11, 1992, London
By: Citibank, N.A. (Issuer Services), Agent Bank

CITIBANK

U.S. \$275,000,000

of which
U.S. \$200,000,000 has been issued as the Initial Tranche

The Bank of New York Company, Inc.

Floating Rate Subordinated Capital Notes due 1997

Notice is hereby given that the Rate of Interest has been fixed at 5.25% p.a. and that the interest payable on the relevant Interest Payment Date, September 11, 1992 against Coupon No. 27 in respect of U.S. \$10,000 nominal of the Notes will be U.S. \$134.17.

June 11, 1992, London
By: Citibank, N.A. (Issuer Services), Reference Agent

CITIBANK

COMPANY NEWS: UK

Refocused Amersham at £21m

By Jane Fuller

AMERSHAM International, the health science group which has refocused its activities on radioactive products, increased pre-tax profit by 34 per cent to £20.7m in the year to March 31.

The previous year's pre-tax figure was reduced from £16.5m to £15.5m to provide for the burying of radioactive waste, which has been stored since dumping at sea was banned in 1983. The provision also knocked £9.5m off net assets.

Turnover improved to £273.5m (£242.4m) and operating profit to £23.5m (£19.7m). Interest costs were cut to £2.8m (£4.2m) as net debt came down from £41.1m to £700,000 following the final £47m of Eastman Kodak's payment for the clinical reagents division.

Mr Kirk Stevenson, finance director, said the operating profit from clinical reagents fell from £9.4m to £6.4m as income switched towards a royalties stream rather than a divisional contribution.

Ongoing businesses increased profit by 42 per cent to £23.9m (£16.8m), after a £3.3m rise in R & D spending to £13.7m. The figures benefited from £1.9m of exchange rate gains.

Life sciences, which serves academic institutions and the research departments of phar-



Bill Castell: substantial growth in North America

maceticals companies, made by far the biggest profit contribution of £20.9m, up 26 per cent, on sales of £92.7m (£80.7m). This partly reflected recovery from a poor fourth quarter of the previous year.

Mr Bill Castell, chief executive, said there had been substantial growth in North America and a focus on margins. It was pushing further into the pharmaceutical sector.

Healthcare remained the largest with a profit contribution of only £100,000 (loss of £1.8m) on £83.8m turnover, up 33 per cent. This included a full year of Medi-Physics, a US radiopharmaceuticals company which had been brought back into profit in the second half. Price competition continued to depress the generic market.

Ceretec, a brain imaging

product, increased sales from £10m to £14m. New products would include Metastar, for prostate cancer, and Myoview to trace blood flow through the heart.

The industrial quality and safety assurance division improved its profit contribution by 24 per cent to £4.6m on £36.2m sales.

Earnings per share went up 44 per cent to 22.7p (16.5p). A final dividend of 8.5p makes a total of 31.2p (15.0p).

COMMENT

The new management at Amersham has gained considerable credit for refocusing the business and restoring strong earnings growth - hence the 15p share price rise to 47.9p. Life science should continue to drive profits forward, although the most room for improvement clearly lies in healthcare. Lower interest costs should help offset a further fall in the contribution from clinical reagents. A pre-tax forecast of £24m gives a prospective p/e of more than 17. The share price has virtually doubled since November 1990 as the group has shed some problems and re-established its growth credentials. There seems little scope for short-term improvement, although it is still at a small discount to the health and household sector.

G Wood provides new platform for Bristol

By Jane Fuller

MR PAUL Bristol, who sold out of Brompton Holdings a year ago, is re-entering the UK stock market through the refocusing of Graham Wood, a structural engineer.

He said that, after making the group safe, he would use it to make acquisitions. This might take him back into the oil services sector. He used to be involved in Oilfield Inspection Services and Bristol Oil and Minerals.

More recently he built up Brompton, a USM-quoted safety inspection and testing group, which was taken over by Adia of Switzerland, last June in an £11.7m deal. Mr Bristol had a 16 per cent stake in the group.

Graham Wood announced yesterday that Mr Bristol was proposing a significant cash injection and had become executive chairman.

The shares were suspended at 16p after receivers were appointed to Blight & White, a structural steel subsidiary. Although it had completed work on such prestige projects as Euro-Disney and the centre court at Wimbledon, its latest big contract was for Olympia & York at Canary Wharf.

Mr Bristol said it seemed unlikely to get payments of up to £400,000 and that was the last straw. Its debts amounted to about £2.5m.

The remainder of the group, including its main Graham Wood Structural subsidiary, was unaffected by the receivership as there were no cross-guarantees.

However, borrowings of £5m remained and discussions about the refinancing were taking place with the Royal Bank of Scotland.

Australian underwriting losses cut CE Heath profits by £6.5m

By Richard Lapper

CE HEATH, the insurance group, reported pre-tax profits sharply lower at £19.1m compared with £25.6m, for the year ended March 31 1992, hit by underwriting losses run by an Australian subsidiary.

However, before exceptional items the profit rose to £31.5m (£28.8m), largely as a result of strong growth in insurance broking with turnover rising to £101.6m (£77.5m) - topping the £100m mark for the first time in the group's history.

A final dividend of 18.375p is declared, giving an unchanged total of 25.875p.

The losses, which emerged in the form of an exceptional item of £12.4m, resulted from a discontinued line of aviation reinsurance business formerly underwritten by the group's Australian underwriting operation, CE Heath International Holdings, whose flotation was announced in March.

Insurance broking profits were up to £18.6m (£16.1m), underwriting profits down to

£12.8m (£14.8m) and computer services higher at £5m (£3.8m). Investment income was lower at £13.5m (£14.3m).

Income at the group's computer services division is up to £39.2m (£34.1m).

On an underlying basis brokerage income increased by 13 per cent while expenses were up 8 per cent.

Brokerage expenses were up to £97.7m (£76.8m). Heath has now virtually completed its withdrawal from the higher risk and more volatile world of insurance underwriting. Completing a process of corporate restructuring started in 1986.

After the flotation of CE Heath International Holdings in Australia, Heath reduced its own shareholding from 90 per cent to 46 per cent.

A separate underwriting subsidiary, the Bermuda-based Pinnacle was disposed of last year.

COMMENT

Yesterday's exceptional item shows that Heath has not com-

pletely left behind its difficulties of the mid-1980s, which is one of the reasons why the market reacted unenthusiastically to the results, marking the share down 5p to 397p.

Another is that dividend cover, even on the assumption that profits over the next 12 months climb to £28m, will remain tight for the foreseeable future. Profits of that level would produce earnings per share of about 23p, leaving the group on a prospective p/e of over 17.

At first glance it might seem demanding, but the results also show the group is now a long way from the crisis-ridden days, when its senior broking staff were rushing for the exits. Heath is now much more focused on its core broking activities, with a balanced spread of business, stretching from more stable but low-margin UK retail, to more exciting and bigger margin wholesale business, such as the group's Latin American operations which showed impressive growth last year.

HSBC eligible for FT-SE 100

THE FT-SE 100 Index steering committee yesterday considered the eligibility and timing of HSBC Holdings becoming a constituent of the FT-SE 100 and agreed that all shares of HSBC Holdings would be eligible for inclusion in the index from the date on which the final offer for Midland Bank became unconditional in all respects.

In arriving at its decision, the committee took into account that:

- 1) HSBC Holdings is UK incorporated.

- 2) HSBC Holdings has made a public commitment that the enlarged company will become UK tax-resident from January 1 1993.

- 3) It would cause unnecessary confusion and disruption to exclude shares in HSBC Holdings following the final offer becoming conditional in all respects, given that Midland Bank was presently a constituent of the index and would need to be removed but not replaced by the enlarged HSBC Holdings until January 1993.

The Committee reserves the right to remove HSBC Holdings from the index should the company not become UK tax-resident as planned.

● The Joint Institute Committee of the Institute and Faculty of Actuaries has agreed that HSBC Holdings will join the FT-Actuaries All-Share Index from the date the final offer for Midland Bank becomes unconditional in all respects.

The committee reserves the right to remove HSBC Holdings from the index should the company not become UK tax-resident as planned.

Electrocomponents declines to £49.9m

By Peter Pearce

SHARES IN Electrocomponents rose 17p to 294p after the distributor of electronic, mechanical and electrical components reported a drop in pre-tax profits from £55.2m to £49.9m in the year to March 31.

Mr Robert Lawson, chief executive since April 1991, ascribed the share price rise to three factors: increased operating profits from the core RS Components business; "demonstrable" cash management across the group, which has cut gearing from 98 per cent to nil; and a higher-than-expected final dividend of 5.1p (4.8p) for a total of 7p (6.8p).

RS, which in November added mechanical products and tools to its electronic and electrical products catalogue business, achieved a £400,000 rise in operating profits to £56.9m on sales 9.6 per cent

ahead at £275.2m. Mr Lawson said this was in spite of the recessionary conditions in a "difficult year", the payment of rates for 10 months as a result of the termination of the Corby Enterprise Zone, and the £3m budgeted start-up losses from the fledgling RS Germany.

RS's "encouraging performance" was offset by an operating decline from £1.3m to £800,000 at Part International, which distributes components to the retail market.

Misco Group, the computer supplies catalogue business, also had "an extremely difficult year", said Sir Keith Bright, chairman. It tumbled to operating losses of £3m (profits £2m) on sales down at £71.7m (£74.2m).

Group turnover fell 5 per cent to £336.1m and there were exceptional costs of £3.6m (£800,000). Below the line there were extraordinary charges of

£31m (£27.8m) - £24.6m of this relates to the restructuring of Misco and the balance to the sale of Mesa Distribution of the US.

Earnings were 15.3p (17.4p) per share.

COMMENT

Having realised the recovery would not be short and sharp, the slow, steady progress at RS is increasingly valued. And the new management's clear strategy to refocus the group, cut out peripherals, and expand beneath the umbrella of RS's solid distribution network is welcomed. A one-concept, rather than a one-business, company is not a worry as catalogue-selling has proven to be sturdy enough through the recession. Adding part two (mechanical products and tools) to the catalogue has been well received and goes to show that the same concept

could be applicable across different technologies. Finally the success of RS's overseas expansion bodes well for the future, though it may be next year before the benefits are apparent. Full-year pre-tax estimates were upgraded from £54m-£57m to £56m-£59m, giving a prospective multiple of about 17, which seems reasonable.

COMMENT

At one level the move comes as something of a surprise, though it has been a poorly kept secret for some time that Mr Louis-Dreyfus wished to move on.

He was brought in in January 1990 to draw up and implement a rescue operation, a recapitalisation scheme which, 18 months later, was successfully in place. Although the group is no longer on the deathbed, it is still in convalescence.

In March the group reported pre-tax losses of £58.4m, on an annualised basis, to the end of December 1991, against pre-tax profits of £35.6m for the year to September 1990.

It is still facing earn-out payment burdens of £21m this year, rising to £28m in 1993, but falling to £13m and £10m in the following two years. Net

debt in the final quarter of 1991 averaged £200m.

But on another level, the appointment of Mr Scott will be as close as possible to a seamless transition.

Mr Louis-Dreyfus brought Mr Scott into Saatchi to assist with the refinancing negotiations. Thus the move recognises Mr Scott's key role in bringing financial control back to an organisation which was rapidly sliding into shambles. The two will be working in tandem for the coming year, as they have since January 1990.

Mr Scott says that it is difficult to outline financial targets over the short term due to the depressed state of world economies. "The reality is that to sit here now and say how much revenues are going to increase in 1993 is not a sound basis for planning."

Improving group performance will not be easy this year, when advertising revenue projections of 2 per cent real growth are already being revised downwards. How will Mr Louis-Dreyfus and Mr Scott improve operating margins from the "clearly unacceptable" 2.8 per cent 1991 level to

PUBLIC WORKS LOAN BOARD RATES

Effective June 10

Term	SPR	ATY	ATY
Over 1 up to 2	10	10	10
Over 2 up to 3	10	10	10
Over 3 up to 4	9 1/2	9 1/2	9 1/2
Over 4 up to 5	9 1/2	9 1/2	9 1/2
Over 5 up to 6	9 1/2	9 1/2	9 1/2
Over 6 up to 7	9 1/2	9 1/2	9 1/2
Over 7 up to 8	9 1/2	9 1/2	10 1/2
Over 8 up to 9	9 1/2	9 1/2	10 1/2
Over 9 up to 10	9 1/2	9 1/2	10 1/2
Over 10 up to 15	10	10 1/2	10 1/2
Over 15 up to 25	10 1/2	10 1/2	10 1/2
Over 25	10 1/2	10 1/2	10 1/2

*Non-quoted loans A are 1 per cent higher and non-quoted loans B 2 per cent higher in each case than quoted loans. *Equal instalments of principal. *If payment by half-yearly instalments (fixed equal half-yearly payments to include principal and interest). *With half-yearly payments of interest only.

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B. C. Owens, Secretary
For and on behalf of
The Rank Organisation Plc

ROYAL BANK OF CANADA
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Charles Scott: difficult to set short-term targets

their target of reaching 10 per cent in the next three years?

Mr Scott sees the key in dealing with loss-making areas: "Whatever happens to revenues, we will raise margins to 10 per cent by the elimination of loss-making concerns, either by turning them into profit or closing them down. I don't

think we would necessarily sell companies in order to raise margins; though we would sell them if we don't see them as being a core business for the company."

Thus while the group's two international advertising networks, (Saatchi & Saatchi Worldwide and BSB), the direct

mail company (Kobs and Draft), its public relations company (Rowland), and its media-buying arm (Zenith) are seen by both men as central, a sprinkling of smaller US and UK companies are going to come under close scrutiny.

"We don't anticipate that there will be any loss-making operations by 1993," says Mr Scott. One plan likely to come to fruition before the end of 1993 is to expand Zenith's media-buying operation through a European link.

Mr Scott can hardly be further removed from the common image of an advertising person; he epitomises caution and exudes thoughtfulness. Thus he was keen to emphasise the gradualist approach he has to steering Saatchi back onto the straight and narrow.

For 1992, he is content to hope for small but real improvements: "It will be a year not dissimilar to last year, with things showing constant improvements. We have been working all the time on rationalising the company and that will continue. My particular role is to improve the earnings as much as possible."

THE ALLOCATION OF RADIO SPECTRUM

London, 22 & 23 June 1992

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Ministry of Defence

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Iridium Inc

Mr Mike Tiplady
Cabletel

Mr Michael Goddard
European Radiocommunications Committee

Dr John Forrest
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Press Service, B.M.R.C. Businessman Survey 1992

FT SURVEYS

COMPANY NEWS: UK

Estate agency loss leaves Hambros lower

By Roland Rudd

HAMBROS, the merchant bank and financial services group, yesterday reported a fall of 8 per cent, from £80.4m to £74.4m, in pre-tax profits for the year to March 31, mainly due to losses in the group's estate agency business.

Mr Charles Hambro, chairman, said: "Economic conditions both at home and abroad continue to remain somewhat uncertain."

Retail financial services, which consist mainly of Hambro Countrywide, the estate agency operation, incurred losses of £6.3m compared with £500,000. The losses were largely due to the £4m cost of setting up non-mortgage products.

Although Hambro Countrywide increased its sales of houses by 8 per cent to over 40,000 in a declining national market, the merchant banking and financial services group said the year had started very slowly.

Since the general election there has been increased activity in the housing market but Mr Hambro warned that "more time and solid evidence" was still needed before one could speak of a firm recovery.

A strong performance from the banking division, which increased profits from £69.2m to £73.4m, was mainly due to Eurobond and Treasury operations. Income from corporate finance also increased on the back of some big rights issues in the UK and European cross-border transactions.

Provisions for bad debts were higher at £13m (£8m). However, Mr Chips Keswick, deputy chairman, said the largest single debt was £3m and there were no loans to the property market.

Hambros is also involved in eastern European privatisation, such as the paper and pulp mills in Czechoslovakia and Poland and is working as contractors for the government know-how fund in the Ukraine.

Profits from direct investments fell from £28m to £24.1m. Berkeley Hambro increased its retail income by 18 per cent but had to provide against a fall in asset values.

On the UK investment side the group said it was working on five unlisted investments with a book value of £4m.

Fully diluted earnings per share were 25.4p (27p). The final dividend is increased to 9.5p (8.5p) making a total of 34.9p.

M&A to dispose of 2,000 poster sites

By Peggy Hollinger

HAVAS, the French parent of Mills & Allen, the UK outdoor poster company, yesterday agreed to abide by the Monopolies and Mergers Commission's ruling that its British subsidiary must dispose of 2,000 sites acquired last year.

Due to the complex history of these particular roadside sites, the parent company was required to give its own undertaking - in addition to that of its UK subsidiary - to sell panels acquired through the purchase of Brunton Curtis in April 1991.

An MMC inquiry into MAI, Mills & Allen's previous owner, in 1987 had ordered the disposal of these same sites which were subsequently sold to Brunton Curtis. The purchase of Brunton by M&A revived the commission's original objections, even though it was under new ownership.

The sites to be sold include all 48-sheet (10 ft by 20 ft) or larger panels owned by Brunton Curtis when it was acquired by M&A.

Interest charges reduced to £17.7m as borrowings are cut by more than £100m

Across the board improvement at Racal

By Richard Gourlay

THE MOST impressive element of Racal Electronics' £55.6m pre-tax profits reported yesterday is the exceptional strength of its cash generation.

As a result, debt has fallen to £121m from the £225m it stood at after the demerger of Vodafone Group last September. While £40m came from tighter working capital control, even more was generated from operations which last year made combined losses of £21m at the pre-tax level.

There is nothing like being on the receiving end of a hostile bid - that fails - to sharpen up a company's operations. What it means is that both Chubb, the security division which is to be floated this October, and the remaining Racal businesses will carry a considerably more manageable debt load, with all that means for interest payments and the ability to grow by acquisition.

The turnaround appears to have been across the board. Most impressive, for a business thought to have been in a cash cow phase of its business cycle, is the 20 per cent increase in operating profits to £53.8m at Chubb on sales up only 3 per

cent at £689m.

Also improving was the radio communications division, where profits almost doubled to £22.5m, mostly on the back of successes in the US and Canada.

The marine and energy division, part of which was believed to be up for sale, increased profits from £14.98m to £16.29m, as a result of improvements in the energy area. Sir Ernest Harrison, Racal chairman, said yesterday that the Marine division will not be sold.

Network services, which includes the service which carries data between government departments, bounced from losses of £14.36m to losses of only £306,000 as the investment programme and start-up costs came to an end.

Defence radar and avionics improved from losses of £335,000 to a £5.38m profit and could be the exciting new division of the late 1990s if Racal is as successful as it hopes to be in developing the telephone-in-aeroplane market that Racal says has a potential for sales of \$1bn within 10 years.

The Achilles' heel remained the data communications division which, after Chubb, is the largest business area with



David Elsberry, Racal's chief operating officer (left), Sir Ernest Harrison, Racal's chairman and chief executive (centre), with David Peacock, chief executive of Chubb

sales of £323.7m producing profits of £1.82m. This improvement from losses of £11.8m partly reflected restructuring but the market is, and will remain after the recession ends, particularly competitive in the US.

Sir Ernest recognises that

unless profitability is improved here, benefits emerging from improvements in the other divisions could be dwarfed.

"The key is to get profitability into data communications," Sir Ernest said.

As a result of the reduced level of debt, the interest

charge during the year fell from £37.47m to £17.7m and gearing fell from 35.4 per cent to 19.1 per cent.

Earnings per share rose to 2.3p from losses of 2.01p and the company is proposing a final dividend of 0.7p, giving a total of 1p.

NEWS DIGEST

Airsprung buoyed by interest fall

SHARPLY REDUCED interest charges, stable raw material prices and improved productivity combined to lift annual profits at Airsprung Furniture Group by 39 per cent.

The Wiltshire-based company lifted profits for the year to end-March from £3.6m to a record £4.97m pre-tax on turnover marginally ahead to £55.1m (£55.5m).

Interest charges, partly reflecting the proceeds of last July's rights issue, dived from £907,000 to £130,000.

Earnings per share, after release of deferred tax previously provided, amounted to 38.1p (31.6p).

A final dividend of 4.87p lifts the total for the year to 7.5p (6.35p).

AH Ball achieves growth of 16%

In demanding market conditions AH Ball Group managed a 16 per cent rise in pre-tax profits, from £535,000 to £620,000, in the 12 months to March 31.

Sales were little changed at £5.75m.

The USM-quoted civil engineer said that the malaise in the construction industry continued to affect the water and gas market sectors.

However, profit margins in the second half benefited from adjusted depreciation rates, and the commercial completion of contracts substantially finished in the first half.

A recommended final dividend of 4.3p brings the total to 7p (6.75p). Earnings per share were 10.19p (8.04p).

The shares added 10p to 180p.

Comac ends year £362,424 in black

Comac Group, the USM-quoted supplier of specialist staff for the computer industry, reported pre-tax profits of £362,424 for the year to end-December.

This compares with losses of £24,853 last time and consolidates the turnaround to profits of £187,000 at the interim stage.

The result was struck on turnover down slightly from £10.4m to £9.97m. At the operating level profits grew from

£28,508 to £439,841.

Income from interests in an associated undertaking fell from £50,675 to £7,944. Net interest payable declined from £148,086 to £35,161.

Earnings per share were 4.06p (0.70p losses).

Porter Chadburn achieves £5.59m

Porter Chadburn, the leisure products, notepaper and labels producer, announced pre-tax profits of £5.59m for the year to March 27.

That, compared with £5.32m last time, related to reclassified extraordinary reorganisation costs as exceptional.

Mr Raymond Dinkin, chairman, said that without the reorganisation profits would have been 20 per cent lower than last year.

He said the results, which included £1m from the sale of part of the packaging division, had been severely affected by the UK recession and certain management and control weaknesses in the consumer leisure division where operating profits fell from £4.59m to £1.5m.

Profits from packaging were £2.83m (£1.7m) and specialist distribution £1.61m (£1.93m).

Group turnover increased to £132m (£112m).

Earnings per share fell from 5.65p to 5.18p and a final dividend of 1.65p is recommended for a total of 3.83p (2.4p).

Moorgate Smaller net assets up 8.9%

Moorgate Smaller Companies Investment Trust reported a net asset value of 112.85p as at April 30 1992, a rise of 8.9 per cent since its inception in May last year.

Net revenue for the period amounted to £2.34m for earnings of 4.83p per share. A proposed final dividend of 2.325p brings the total to the anticipated 4.125p.

M&G Second Dual net asset value up

M&G Second Dual Income Trust lifted net asset value from 446.1p to 474.02p per capital share over the year to May 31.

Net revenue was virtually unchanged at £2.39m, equal to earnings of 23.86p (23.79p) per income share.

A final dividend of 10.67p makes a total of 23.86p (23.79p) for the year.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Airsprung	4.87p	July 31	8.1	7.5	6.33
Amersham Int	8.8	Aug 3	3.7	12.5	11.8
Ball (AH) 5	4.8	July 24	4.55	7	6.75
Cape	7.5	Aug 7	7.5	10.5	10.5
Daily Mail	32	July 17	29	3	119
Danka Business	2.5	Aug 14	2	3.75	3
Electronics	5.1	Sept 4	4.8	7	8.6
Electronics	9.8	Aug 21	8.8	13.8	12.8
Hambros	18.375p	July 31	18.375	25.875	25.875
Health (CIS)	1	July 27	1	3	3
Johnson Firth	0.95	July 24	0.975	2.75	2.75
London Scottish	10.67	July 14	10.67	23.86	23.78
M&G Second Dual	9.8	Sept 9	8.5	13.6	12.1
Manfield Brew	2.25	July 24	-	4.125	-
Moorgate Smaller	0.85	Aug 28	0.8	2.52	2.52
Neotronics Tech	9.27p	Sept 4	8.5	16.12	14.5
Northern Foods	13.7	Oct 1	12.4	20.51	18.6
Thames Water	8	Sept 23	8	12	12
Orkney Int	1.65	Oct 1	1.6	2.51	2.4
Porter Chadburn	0.7	Aug 27	2.9	1.5	4.4
Racal Elect	nil	Aug 12	2.41	4	4
Regal Properties	2.41	Aug 12	2.41	4	4
Tate (John) 5	2.41	Aug 12	2.41	4	4

Dividends shown pence per share net except where otherwise stated. 10p increased capital. USM stock.



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US FINANCE AND INVESTMENT

Thursday June 11 1992

Corporate America has been undergoing a restructuring of its balance sheet over the past year, swapping the heavy debt burden of the 1980s for equity or fixed income paper with lower rates of interest, writes Martin Dickson

A four-letter word: debt

THE RESTRUCTURING of Corporate America's balance sheet - the most important change in US financial markets over the past two years - is continuing apace as the nation adjusts from the financial excesses of the 1980s.

Helped by a stock market boom and falling interest rates, US companies have been rushing to issue new equity and cut their debt, or refinance their existing borrowings on more favourable terms.

Most have been able to do so in an orderly fashion, yet others facing cash-flow crises have had to seek the protection of the bankruptcy courts for their restructurings. Companies which have filed for Chapter 11 bankruptcy protection since the start of the year include Macy's, the New York-based department store chain, and parts of Olympia & York, the Canadian property group.

These trends still have some way to run. The wave of corporate bankruptcies seems past its peak, and should continue to diminish if the US economy sustains its slow recovery from the 1991 recession. But this will doubtless be accompanied by some further high profile disasters. The Olympia & York debacle is a reminder of the extreme fragility of the North American property market.

The substitution of equity for debt is also incomplete,

After all, 1991 was only the first time in eight years that US corporations issued more stock than they retired. But the pace of change could slow as the year advances: investors are getting more choosy about the equity they buy and the stock market is looking very generously valued.

There could be a substantial market correction over the next few months, especially if the trend of interest rates begins to rise consistently, a development which could also stem the flow of debt issues.

Nevertheless, the net effect of these changes will eventually be a much healthier US business environment, as well as some very fat fees for the Wall Street investment banks and law firms which, cynics note, also reaped handsome rewards advising their clients during the great debt and takeover booms of the 1980s.

Wall Street enjoyed bumper profits in 1991, thanks largely to the flood of new issues, and sustained this through the first quarter of this year.

However, one house was conspicuously absent from the feast: Salomon Brothers, which was hit last August by a scandal over its behaviour during auctions of US treasury bonds. That led to a change of the company's top management and a long investigation by the Securities and Exchange Commission, which ended last

month in \$250m of fines and restitution for Salomon.

While the SEC investigation continued, many companies were unwilling to give Salomon a mandate to lead-manage share issues, or advise on delicate takeover work, and the firm's profits suffered accordingly. Still, even Salomon recorded its third most profitable quarter in the first three months of this year.

America's commercial banks, while enjoying no such profits bonanza, are at least slowly emerging from the crisis they faced when the US plunged into recession and the property and leveraged buy-out bubbles of the 1980s burst.

The banks have ingested large doses of medicine, including heavy bad debt provisions, slashed dividends, the sale of non-essential assets and large cuts in their bloated operating costs. And they have been greatly aided by the Federal Reserve's easing of interest rates, which has allowed them to improve their net interest margin - the difference between what banks pay to borrow funds and what they charge to lend money.

Mr Gerald Corrigan, president of the New York Fed, noted recently that the vast majority of the big US banks' risk-based capital ratios are now well in excess of the minimums set by the Bank for International Settlements, "a result many observers would have regarded as unreachable only a few years ago".

But despite tentative signs that some regional banks are becoming more ready to add to their loan portfolios, the banking recovery is likely to remain subdued, because of the severe



lines, which would allow the industry to rationalise its cost structure, although abolition of the long-standing ban on banks entering the securities business still seems far away.

Whatever the politicians' decision on inter-state banking, the industry will continue its consolidation wave in an

investment banking glamour boys of the 1980s, must be very thankful to the banking sector for all these marriages, since takeover activity in general has fallen sharply over the past two years.

The corporate raiders who made much of the running in the 1980s are now largely dis-



Two facets of the US scene: the Federal Reserve Bank of New York and (right) the Chicago Options Exchange (see story, page 3)

□ The equity market - Wall St sees recovery; Fixed income - taking advantage of cheaper credit Page 2 □ The futures industry - a shrinking share of a larger pie Page 3

problems still facing the property sector.

A key question for the banking industry over the next two years is whether efforts to reform the US banking system, which largely came to nothing in 1991, will get a second wind following November's presidential election. Bankers are hopeful that Congress might permit branch banking across state

attempt to cut costs and improve efficiency. The past year has seen a sharp increase in this trend, with mergers bringing together New York's Chemical Bank and Manufacturers Hanover, California's BankAmerica and Security Pacific, and the South's NCNB and OHS Savana.

Wall Street's mergers and acquisitions experts, the

credited and cannot raise funds readily, while many industrial companies are more concerned to improve the efficiency of their businesses rather than make large acquisitions.

The deals that do go through are all agreed - there has not been a big hostile bid in the US for a year - and tend to be medium-sized, strategic acquisitions. One source of such

deals over the next few years will be the US defence industry, which is in the early stages of a tricky rationalisation in response to declining Pentagon spending on hardware.

These trends have meant a withering of the size and prestige of Wall Street's mergers and acquisitions departments, and a concomitant increase in the influence of advisers on debt, equity and other instruments, as well as corporate restructurings.

Total US financing volume reached a record \$586bn in 1991, up 88 per cent on 1990, itself a record year, and the trend continued in the first quarter of this year, with \$216bn of new issues, some 37 per cent of last year's total.

Apart from heavy issuance of debt and equity, the market

has also seen continued growth in asset-backed securities - instruments which rely on cash flow from pools of assets, such as credit card receivables, to pay investors principal and interest.

For issuers this market provides not only easily available funds - even for those with otherwise problematic credit ratings - but a means of taking assets off the balance sheet and improving capital ratios. It is hardly surprising that banks have been the largest issuers, though the strengthening of their balance sheets was probably the main cause of a first quarter slowdown in new issuance.

At the same time, Wall Street is busily trying to bring to the market innovative new debt and equity products, many of them designed to re-

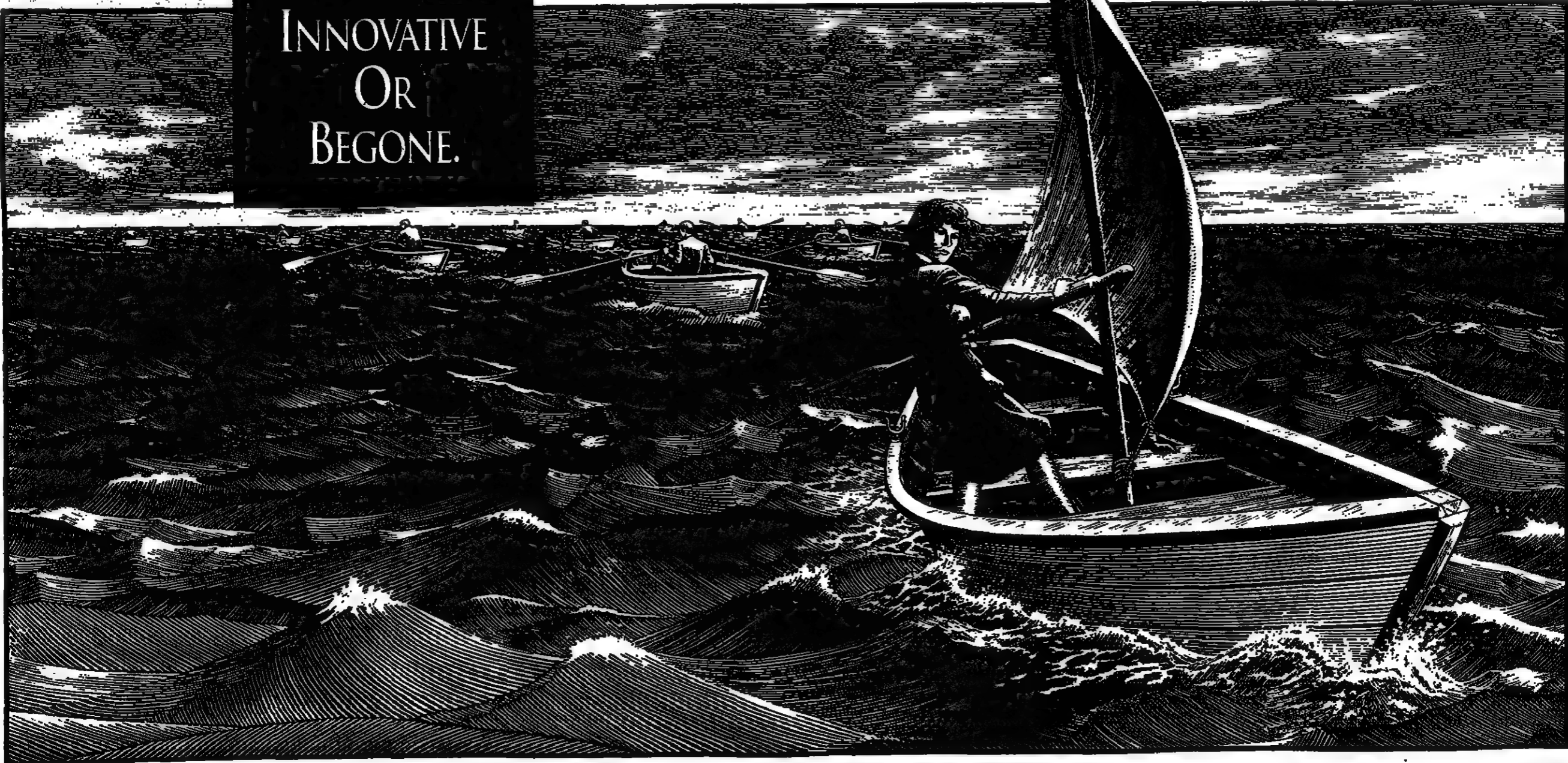
late or reduce risk.

The past year, for example, has seen a resurgence of interest in "hybrid" debt securities which combine conventional borrowing instruments with derivatives such as swaps or options.

But for all this activity, many analysts doubt that the coming decade can hope to match the extraordinary boom in financial innovation of the past two.

As Mr Merton Miller, Nobel prize-winning economist at the Chicago Business School, pointed out recently: "in the avant-garde academic literature of economics and finance today, few signs can be seen of new ideas and concepts like those that bubbled up in the 1960s and 1970s and came to fruition later in specific innovations."

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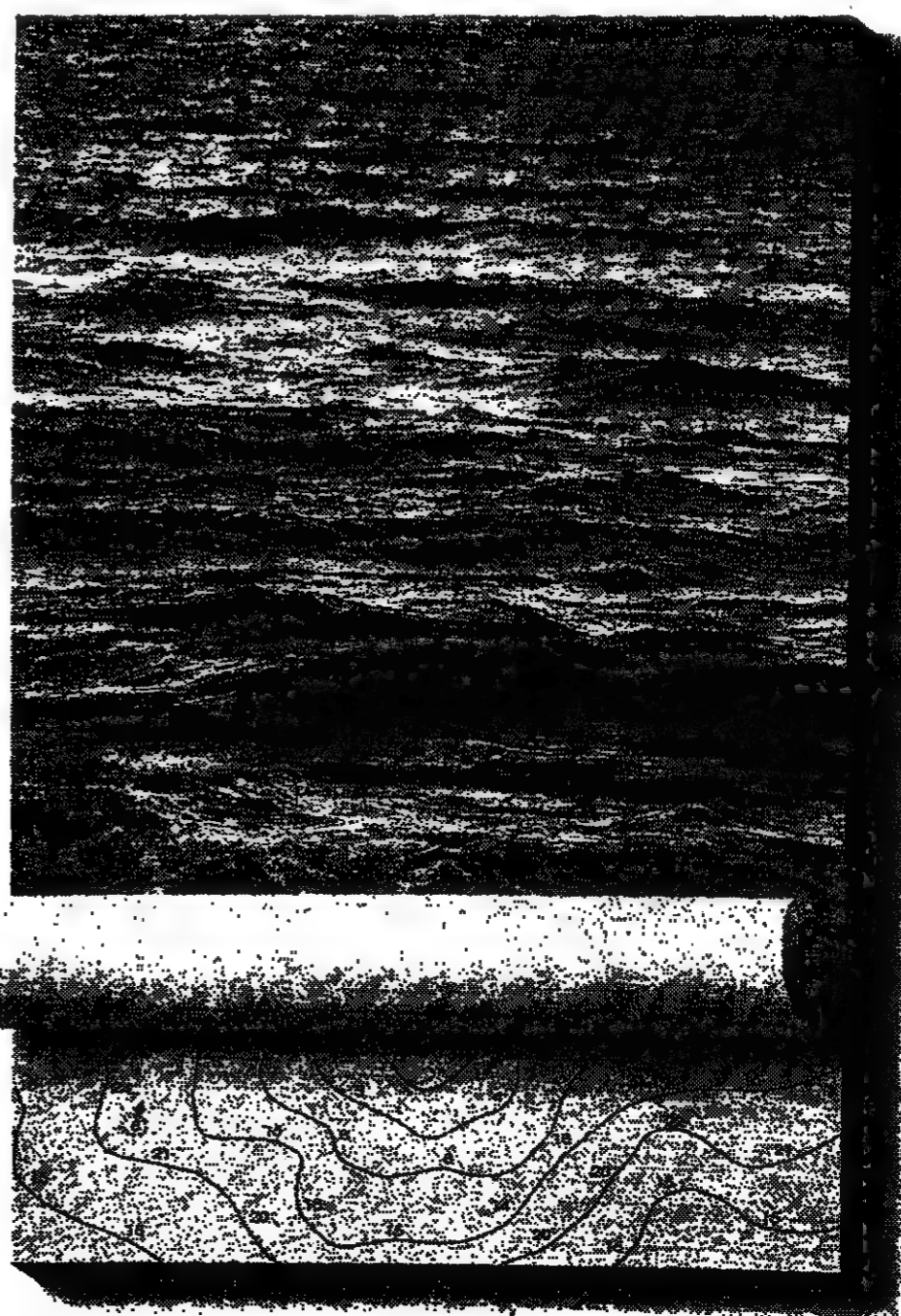
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TIME: The time shown throughout the text corresponds to the time of day of the week before the summer point unless otherwise noted. The reported climatic data (indicated and used in the synoptic case are as follows: (W) - 0000 UTC hour; (M) - 1100 to 1400 local; (A) - 1400 to 1700 local; (N) - 1700 to midnight. Only the dates are on the basis of the volume number; a short period of time may elapse before reports become available.

Sawyer Power Plant		Unit	Wt	Wt	Wt
1	1000	1000	1000	1000	1000
2	1000	1000	1000	1000	1000
3	1000	1000	1000	1000	1000
4	1000	1000	1000	1000	1000
5	1000	1000	1000	1000	1000
6	1000	1000	1000	1000	1000
7	1000	1000	1000	1000	1000
8	1000	1000	1000	1000	1000
9	1000	1000	1000	1000	1000
10	1000	1000	1000	1000	1000
11	1000	1000	1000	1000	1000
12	1000	1000	1000	1000	1000
13	1000	1000	1000	1000	1000
14	1000	1000	1000	1000	1000
15	1000	1000	1000	1000	1000
16	1000	1000	1000	1000	1000
17	1000	1000	1000	1000	1000
18	1000	1000	1000	1000	1000
19	1000	1000	1000	1000	1000
20	1000	1000	1000	1000	1000
21	1000	1000	1000	1000	1000
22	1000	1000	1000	1000	1000
23	1000	1000	1000	1000	1000
24	1000	1000	1000	1000	1000
25	1000	1000	1000	1000	1000
26	1000	1000	1000	1000	1000
27	1000	1000	1000	1000	1000
28	1000	1000	1000	1000	1000
29	1000	1000	1000	1000	1000
30	1000	1000	1000	1000	1000
31	1000	1000	1000	1000	1000
32	1000	1000	1000	1000	1000
33	1000	1000	1000	1000	1000
34	1000	1000	1000	1000	1000
35	1000	1000	1000	1000	1000
36	1000	1000	1000	1000	1000
37	1000	1000	1000	1000	1000
38	1000	1000	1000	1000	1000
39	1000	1000	1000	1000	1000
40	1000	1000	1000	1000	1000
41	1000	1000	1000	1000	1000
42	1000	1000	1000	1000	1000
43	1000	1000	1000	1000	1000
44	1000	1000	1000	1000	1000
45	1000	1000	1000	1000	1000
46	1000	1000	1000	1000	1000
47	1000	1000	1000	1000	1000
48	1000	1000	1000	1000	1000
49	1000	1000	1000	1000	1000
50	1000	1000	1000	1000	1000
51	1000	1000	1000	1000	1000
52	1000	1000	1000	1000	1000
53	1000	1000	1000	1000	1000
54	1000	1000	1000	1000	1000
55	1000	1000	1000	1000	1000
56	1000	1000	1000	1000	1000
57	1000	1000	1000	1000	1000
58	1000	1000	1000	1000	1000
59	1000	1000	1000	1000	1000
60	1000	1000	1000	1000	1000
61	1000	1000	1000	1000	1000
62	1000	1000	1000	1000	1000
63	1000	1000	1000	1000	1000

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Sawyer Junior Unit Trk 88000P		Unit	Wt	Wt	Wt
1	1000	1000	1000	1000	1000
2	1000	1000	1000	1000	1000
3	1000	1000	1000	1000	1000
4	1000	1000	1000	1000	1000
5	1000	1000	1000	1000	1000
6	1000	1000	1000	1000	1000
7	1000	1000	1000	1000	1000
8	1000	1000	1000	1000	1000
9	1000	1000	1000	1000	1000
10	1000	1000	1000	1000	1000
11	1000	1000	1000	1000	1000
12	1000	1000	1000	1000	1000
13	1000	1000	1000	1000	1000
14	1000	1000	1000	1000	1000
15	1000	1000	1000	1000	1000
16	1000	1000	1000	1000	1000
17	1000	1000	1000	1000	1000
18	1000	1000	1000	1000	1000
19	1000	1000	1000	1000	1000
20	1000	1000	1000	1000	1000
21	1000	1000	1000	1000	1000
22	1000	1000	1000	1000	1000
23	1000	1000	1000	1000	1000
24	1000	1000	1000	1000	1000
25	1000	1000	1000	1000	1000
26	1000	1000	1000	1000	1000
27	1000	1000	1000	1000	1000
28	1000	1000	1000	1000	1000
29	1000	1000	1000	1000	1000
30	1000	1000	1000	1000	1000
31	1000	1000	1000	1000	1000
32	1000	1000	1000	1000	1000
33	1000	1000	1000	1000	1000
34	1000	1000	1000	1000	1000
35	1000	1000	1000	1000	1000
36	1000	1000	1000	1000	1000
37	1000	1000	1000	1000	1000
38	1000	1000	1000	1000	1000
39	1000	1000	1000	1000	1000
40	1000	1000	1000	1000	1000
41	1000	1000	1000	1000	1000
42	1000	1000	1000	1000	1000
43	1000	1000	1000	1000	1000
44	1000	1000	1000	1000	1000
45	1000	1000	1000	1000	1000
46	1000	1000	1000	1000	1000
47	1000	1000	1000	1000	1000
48	1000	1000	1000	1000	1000
49	1000	1000	1000	1000	1000
50	1000	1000	1000	1000	1000
51	1000	1000	1000	1000	1000
52	1000	1000	1000	1000	1000
53	1000	1000	1000	1000	1000
54	1000	1000	1000	1000	1000
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56	1000	1000	1000	1000	1000
57	1000	1000	1000	1000	1000
58	1000	1000	1000	1000	1000
59	1000	1000	1000	1000	1000
60	1000	1000	1000	1000	1000
61	1000	1000	1000	1000	1000
62	1000	1000	1000	1000	1000
63	1000	1000	1000	1000	1000

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Midway Unit Trk 88000P		Unit	Wt	Wt	Wt
1	1000	1000	1000	1000	1000
2	1000	1000	1000	1000	1000
3	1000	1000	1000	1000	1000
4	1000	1000	1000	1000	1000
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6	1000	1000	1000	1000	1000
7	1000	1000	1000	1000	1000
8	1000	1000	1000	1000	1000
9	1000	1000	1000	1000	1000
10	1000	1000	1000	1000	1000
11	1000	1000	1000	1000	1000
12	1000	1000	1000	1000	1000
13	1000	1000	1000	1000	1000
14	1000	1000	1000	1000	1000
15	1000	1000	1000	1000	1000
16	1000	1000	1000	1000	1000
17	1000	1000	1000	1000	1000
18	1000	1000	1000	1000	1000
19	1000	1000	1000	1000	1000
20	1000	1000	1000	1000	1000
21	1000	1000	1000	1000	1000
22	1000	1000	1000	1000	1000
23	1000	1000	1000	1000	1000
24	1000	1000	1000	1000	1000
25	1000	1000	1000	1000	1000
26	1000	1000	1000	1000	1000
27	1000	1000	1000	1000	1000
28	1000	1000	1000	1000	1000
29	1000	1000	1000	1000	1000
30	1000	1000	1000	1000	1000
31	1000	1000	1000	1000	1000
32	1000	1000	1000	1000	1000
33	1000	1000	1000	1000	1000
34	1000	1000	1000	1000	1000
35	1000	1000	1000	1000	1000
36	1000	1000	1000	1000	1000
37	1000	1000	1000	1000	1000
38	1000	1000	1000	1000	1000
39	1000	1000	1000	1000	1000
40	1000	1000	1000	1000	1000
41	1000	1000	1000	1000	1000
42	1000	1000	1000	1000	1000
43	1000	1000	1000	1000	1000
44	1000	1000	1000	1000	1000
45	1000	1000	1000	1000	1000
46	1000	1000	1000	1000	1000
47	1000	1000	1000	1000	1000
48	1000	1000	1000	1000	1000
49	1000	1000	1000	1000	1000
50	1000	1000	1000	1000	1000
51	1000	1000	1000	1000	1000
52	1000	1000	1000	1000	1000
53	1000	1000	1000	1000	1000
54	1000	1000	1000	1000	1000
55	1000	1000	1000	1000	1000
56	1000	1000	1000	1000	1000
57	1000	1000	1000	1000	1000
58	1000	1000	1000	1000	1000
59	1000	1000	1000	1000	1000
60	1000	1000	1000	1000	1000
61	1000	1000	1000	1000	1000
62	1000	1000	1000	1000	1000
63	1000	1000	1000	1000	1000

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Midway Unit Trk 88000P		Unit	Wt	Wt	Wt
1	1000	1000	1000	1000	1000
2	1000	1000	1000	1000	1000
3	1000	1000	1000	1000	1000
4	1000	1000	1000	1000	1000
5	1000	1000	1000	1000	1000
6	1000	1000	1000	1000	1000
7	1000	1000	1000	1000	1000
8	1000	1000	1000	1000	1000
9	1000	1000	1000	1000	1000
10	1000	1000	1000	1000	1000
11	1000	1000	1000	1000	1000
12	1000	1000	1000	1000	1000
13	1000	1000	1000	1000	1000
14	1000	1000	1000	1000	1000
15	1000	1000	1000	1000	1000
16	1000	1000	1000	1000	1000
17	1000	1000	1000	1000	1000
18	1000	1000	1000	1000	1000
19	1000	1000	1000	1000	1000
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21	1000	1000	1000	1000	1000
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26	1000	1000	1000	1000	1000
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28	1000	1000	1000	1000	1000
29	1000	1000	1000</		

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Other regulatory duties are contained in the last volume of the FT Managerial Practice Series.

16 Life Insurance and Real Estate Regulatory Organization, Geneva Point.

160 New Oxford Street, London WC1A 1DB
Tel: 071 - 579 - 0046.

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Area 10 - 1000		Area 11 - 1100		Area 12 - 1200		Area 13 - 1300		Area 14 - 1400		Area 15 - 1500		Area 16 - 1600		Area 17 - 1700		Area 18 - 1800		Area 19 - 1900		Area 20 - 2000		Area 21 - 2100		Area 22 - 2200		Area 23 - 2300		Area 24 - 2400		Area 25 - 2500		Area 26 - 2600		Area 27 - 2700		Area 28 - 2800		Area 29 - 2900		Area 30 - 3000		Area 31 - 3100		Area 32 - 3200		Area 33 - 3300		Area 34 - 3400		Area 35 - 3500		Area 36 - 3600		Area 37 - 3700		Area 38 - 3800		Area 39 - 3900		Area 40 - 4000		Area 41 - 4100		Area 42 - 4200		Area 43 - 4300		Area 44 - 4400		Area 45 - 4500		Area 46 - 4600		Area 47 - 4700		Area 48 - 4800		Area 49 - 4900		Area 50 - 5000																				
1000	1001	1002	1003	1004	1005	1006	1007	1008	1009	1010	1011	1012	1013	1014	1015	1016	1017	1018	1019	1020	1021	1022	1023	1024	1025	1026	1027	1028	1029	1030	1031	1032	1033	1034	1035	1036	1037	1038	1039	1040	1041	1042	1043	1044	1045	1046	1047	1048	1049	1050	1051	1052	1053	1054	1055	1056	1057	1058	1059	1060	1061	1062	1063	1064	1065	1066	1067	1068	1069	1070	1071	1072	1073	1074	1075	1076	1077	1078	1079	1080	1081	1082	1083	1084	1085	1086	1087	1088	1089	1090	1091	1092	1093	1094	1095	1096	1097	1098	1099	1100

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Guide to pricing of Authorized Unit Trusts

INITIAL CHARGE: Charge made on sale of

OFFER PRICE: Also called issue price. The price at which securities are bought by investors.

CANCELLATION PRICE: The minimum redemptive price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most stock exchanges make a much narrower spread. As a

TIME: The time shown alongside the final

company's return in the form of the user's own
voluntary participation under the control of the
operator through the individual and their own
The symbols are as follows: (P) - 0001 or 1000
Journ. (P) - 1101 to 1400 Journ. (P) - 1401 to
1700 Journ. (P) - 1701 to 1800 Journ. Only dealing
which are not on the basis of the valuation

you may choose from, complete list on page 742. 871-879-0044.

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128

Continued on next page

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate

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CANADA

CANADA																				
Index	Stock	High	Low	Close	Chng	Index	Stock	High	Low	Close	Chng	Index	Stock	High	Low	Close	Chng			
TORONTO																				
3:00 pm prices June 10																				
Questions in cents unless marked *																				
3000 Albitol Pt	\$16	18	16			3600 Corl Syc	\$22	21	21	+	1300 Larent Op	\$5	4	4	+	5500 Ryt/Teneco	\$7	6	6	+
1000 Agrium/Co	\$5	5	5	+		5000 Coscan/Co	\$8	8	8	+	1400 Larent Int	\$3	3	3	+	3000 S&W/Co	\$8	8	8	+
5700 Air Cda	\$50	49	49			16000 Cram/Co	\$14	14	14	+	1000 Lobac	\$17	17	17	+	44000 S&W/Co	\$40	38	38	-
5000 Albitol Pt	\$12	12	12	+		200 Denison A	\$5	5	5	+	12000 Mackenzie	\$5	5	5	+	2000 S&W/Co	\$18	18	18	+
18400 Albitol Pt	\$13	13	13	+		23000 Dorton	\$14	13	13	+	10500 Mecon Int	\$19	18	18	+	1100 S&W/Co	\$18	18	18	+
20000 Alcan Al	\$20	20	20	+		20000 Dorton	\$14	13	13	+	5500 Magna Int	\$31	32	32	+	10000 Impco Int	\$24	24	24	+
12000 Alcan Barr	\$32	31	31	+		20000 Dorton	\$14	13	13	+	12000 Map Int	\$18	18	18	+	3000 S&W/Co	\$18	18	18	+
5000 Alcan GI	\$11	11	11	+		1400 Duple Int	\$42	42	42	+	2300 March TST	\$10	10	10	+	2000 S&W/Co	\$40	40	40	+
						1800 Duple Int	\$21	21	21	+	1000 Mark Res	\$50	50	50	+	7000 S&W/Co	\$11	11	11	+
						5500 Ede Int	\$7	7	7	+	05000 M&S Int	\$15	15	15	+	10000 S&W/Co	\$18	18	18	+
						200 Ede Int	\$6	6	6	+	15000 Metall Int	\$12	12	12	+	18000 S&W/Co	\$18	18	18	+
						800 Empire	\$10	10	10	+	2000 Minerva	\$18	18	18	+	800 S&W/Co	\$18	18	18	+
						5000 Ede Int	\$16	16	16	+	12000 Metall Corp	\$8	8	8	+	2000 S&W/Co	\$18	18	18	+
						500 FPI Ltd	\$30	30	30	+	37000 Metall Corp	\$25	24	24	-	2000 S&W/Co	\$18	18	18	+
						2000 F&W Ltd	\$14	14	14	+	10000 Metall Corp	\$4	4	4	+	2000 S&W/Co	\$18	18	18	+
						1900 F&W Ltd	\$14	14	14	+	13000 Metall Int	\$8	8	8	+	2000 S&W/Co	\$18	18	18	+
						5000 F&W Ltd	\$14	14	14	+	2000 Metall Int	\$8	8	8	+	2000 S&W/Co	\$18	18	18	+
						5000 F&W Ltd	\$14	14	14	+	2000 Metall Int	\$8	8	8	+	2000 S&W/Co	\$18	18	18	+
						5000 F&W Ltd	\$14	14	14	+	2000 Metall Int	\$8	8	8	+	2000 S&W/Co	\$18	18	18	+
						5000 F&W Ltd	\$14	14	14	+	2000 Metall Int	\$8	8	8	+	2000 S&W/Co	\$18	18	18	+
						5000 F&W Ltd	\$14	14	14	+	2000 Metall Int	\$8	8	8	+	2000 S&W/Co	\$18	18	18	+
						5000 F&W Ltd	\$14	14	14	+	2000 Metall Int	\$8	8	8	+	2000 S&W/Co	\$18	18	18	

It will be of particular interest to the 130,000 directors and managers in the UK who read the weekday FT.*
If you want to reach this important audience, call
Hugh Westmacott
Tel: 0532 454969
Fax: 0532 423516
Permanent House,
The Headrow,
Leeds. LS1 8DF

Data source:^a BMRC Businessman Survey 1990

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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NASDAQ NATIONAL MARKET

Rk	P/E 100s					P/E 700s					P/E 100s					P/E 700s				
	Div.	Sts	High	Low	Last Chng	Div.	Sts	High	Low	Last Chng	Div.	Sts	High	Low	Last Chng	Div.	Sts	High	Low	Last Chng

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11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66																																		

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*Data source: European Business
Readership Survey 1992*

FT SURVEYS

